

## Interest Rate Forecasts (Mar)

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### Highlights

1. **We think Fed is effectively cornered by market expectations and now has to deliver 50bps cut at the March FOMC and another 25bps cut at the April FOMC to avoid further market angst.** Meanwhile, Bank Negara is due to announce its MPC decision today. We expect it to cut the OPR by 25bps to 2.5% following January's easing. With a double whammy of impacts from virus outbreak and political drama, BNM appears to be the only game in town and would do what it can to help growth.
2. **Bad news is good news? With global manufacturing PMIs plumbing new depths in contraction territory, global equity and bond markets have reacted like a global recession is impending. In turn, major central banks have quickly stepped up their verbal jawboning, suggesting a coordinated monetary policy easing response is forthcoming.** This began with Fed chair Powell's comments that they will "act as appropriate to support the economy" amid "evolving risks" from Covid-19. Subsequently, ECB's Lagarde also pledged to "stand ready to take appropriate measures", accompanied by similarly supportive noises from the BOJ and BOE. An emergency G7 finance ministers meeting to discuss a response to the virus outbreak amid news that the OECD's warning that global growth could slow to as low as 1.5% this year, saw an overnight risk recovery to what was a very choppy start to March. Now the onus is on the major central banks to deliver on their promises, starting with the Fed where market has already anticipated 50bps at the 18 March FOMC meeting with more to follow. Any disappointment on the dovish rate cuts front may again whipsaw financial markets.
3. **We may not have hit bottom yet in terms of global and Asian economic data prints. While the US and Asian manufacturing PMI readings for February were mostly grim, especially for China, it is premature to anticipate a bounce in March given that China's factories are only beginning to resume capacity and production.** Hence the short-term disruptions to global supply chains will likely impact at least March data. While many Asian governments have been quick to pump out fiscal stimulus, including Hong Kong and Singapore, the key is how to stabilize business confidence and shore up consumer spending in the near-term. As such, more policy accommodation will be on tap in coming months for Asia, but the space may vary for idiosyncratic reasons including political uncertainty.
4. **Lower for longer appears to be the rallying market cry.** With central banks now appearing to be at the beck and call of financial markets, short-term rates are likely to be lower for longer. Even as global risk appetite attempts to stabilize in March, do not expect market volatility to fully subside in 2Q20. Watch for Covid-19 infections and fatality rate to peak and subside first, before calling that the worst is over for markets as well. Any tentative market stabilization is likely to be put to the litmus test of central banks delivering on their promises and note that high hurdles have been already set. Any hesitation on the Fed or any other central banks may garner another round of hand-wringing and market angst.

## Rates Outlook

3 March 2020

USD Interest Rates	1Q20	2Q20	3Q20	4Q20	2021	2022
Fed Funds Target Rate	1.0-1.25%	0.75-1.0%	0.75-1.0%	0.75-1.0%	0.75-1.0%	0.75-1.0%
1-month LIBOR	1.35%	1.10%	1.15%	1.20%	1.25%	1.30%
2-month LIBOR	1.38%	1.21%	1.26%	1.28%	1.37%	1.44%
3-month LIBOR	1.40%	1.31%	1.37%	1.35%	1.48%	1.57%
6-month LIBOR	1.30%	1.33%	1.36%	1.38%	1.50%	1.61%
12-month LIBOR	1.35%	1.38%	1.40%	1.45%	1.55%	1.65%
1-year swap rate	0.86%	0.81%	0.93%	1.04%	1.20%	1.35%
2-year swap rate	0.88%	0.85%	0.98%	1.10%	1.25%	1.40%
3-year swap rate	0.89%	0.87%	1.00%	1.13%	1.29%	1.44%
5-year swap rate	0.90%	0.93%	1.05%	1.17%	1.35%	1.50%
10-year swap rate	1.05%	1.05%	1.15%	1.25%	1.43%	1.60%
15-year swap rate	1.15%	1.21%	1.27%	1.33%	1.50%	1.68%
20-year swap rate	1.21%	1.29%	1.36%	1.44%	1.60%	1.78%
30-year swap rate	1.25%	1.34%	1.44%	1.53%	1.67%	1.85%
SGD Interest Rates	1Q20	2Q20	3Q20	4Q20	2021	2022
1-month SIBOR	1.55%	1.40%	1.43%	1.45%	1.50%	1.55%
1-month SOR	1.23%	1.08%	1.16%	1.23%	1.34%	1.40%
3-month SIBOR	1.56%	1.50%	1.50%	1.50%	1.55%	1.65%
3-month SOR	1.19%	1.10%	1.16%	1.25%	1.38%	1.45%
6-month SIBOR	1.70%	1.60%	1.60%	1.60%	1.65%	1.70%
6-month SOR	1.14%	1.08%	1.18%	1.28%	1.44%	1.52%
12-month SIBOR	1.75%	1.65%	1.65%	1.65%	1.70%	1.75%
1-year swap rate	0.80%	0.70%	0.75%	0.80%	0.90%	1.00%
2-year swap rate	0.85%	0.75%	0.80%	0.85%	0.95%	1.05%
3-year swap rate	0.90%	0.83%	0.86%	0.90%	1.00%	1.10%
5-year swap rate	1.00%	0.98%	0.99%	1.00%	1.10%	1.20%
10-year swap rate	1.15%	1.11%	1.18%	1.25%	1.37%	1.50%
15-year swap rate	1.30%	1.28%	1.33%	1.40%	1.48%	1.58%
20-year swap rate	1.40%	1.38%	1.42%	1.45%	1.55%	1.65%
30-year swap rate	1.42%	1.40%	1.45%	1.50%	1.60%	1.70%

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MYR forecast	1Q20	2Q20	3Q20	4Q20	2021	2022
OPR	2.50%	2.25%	2.25%	2.25%	2.25%	2.25%
1-month KLIBOR	2.70%	2.45%	2.40%	2.35%	2.50%	2.65%
3-month KLIBOR	2.75%	2.50%	2.48%	2.45%	2.60%	2.75%
6-month KLIBOR	3.00%	2.75%	2.63%	2.50%	2.65%	2.80%
12-month KLIBOR	3.10%	2.85%	2.70%	2.55%	2.70%	2.85%
1-year swap rate	2.50%	2.45%	2.50%	2.55%	2.75%	2.90%
2-year swap rate	2.60%	2.55%	2.60%	2.65%	2.80%	2.95%
3-year swap rate	2.65%	2.60%	2.65%	2.70%	2.80%	2.90%
5-year swap rate	2.70%	2.65%	2.70%	2.75%	2.85%	2.95%
10-year swap rate	2.90%	2.75%	2.80%	2.85%	2.95%	3.05%
15-year swap rate	3.10%	3.00%	3.05%	3.10%	3.15%	3.20%
20-year swap rate	3.20%	3.10%	3.15%	3.20%	3.25%	3.30%
UST bond yields	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year UST bond yield	0.70%	0.60%	0.65%	0.70%	0.85%	1.10%
5-year UST bond yield	0.75%	0.68%	0.74%	0.80%	1.00%	1.22%
10-year UST bond yield	1.08%	1.05%	1.15%	1.25%	1.55%	1.65%
30-year UST bond yield	1.63%	1.58%	1.68%	1.78%	1.88%	2.00%
SGS bond yields	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year SGS yield	1.22%	1.15%	1.23%	1.30%	1.40%	1.50%
5-year SGS yield	1.29%	1.20%	1.30%	1.40%	1.50%	1.60%
10-year SGS yield	1.40%	1.32%	1.44%	1.55%	1.70%	1.91%
15-year SGS yield	1.50%	1.41%	1.54%	1.67%	1.82%	1.99%
20-year SGS yield	1.55%	1.51%	1.59%	1.75%	1.95%	2.03%
30-year SGS yield	1.93%	1.87%	1.89%	2.00%	2.10%	2.15%
MGS forecast	1Q20	2Q20	3Q20	4Q20	2021	2022
3-year MGS yield	2.50%	2.30%	2.35%	2.40%	2.50%	2.60%
5-year MGS yield	2.52%	2.40%	2.45%	2.50%	2.55%	2.70%
10-year MGS yield	2.75%	2.50%	2.55%	2.60%	2.72%	2.90%

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