

Updated interest rate forecasts (May 2019)

Friday, May 03, 2019

Highlights

- **The pushback against outright dovishness has started.** At the recent meeting, the Fed unanimously voted to keep the fed funds rate unchanged at 2.25-2.5% in a 10-0 vote, but recognised that “growth of household spending and business fixed investment slowed in the first quarter”. The Fed also tweaked the interest on excess reserves (IOER) rate from 2.4% to 2.35%, but ascribed this as a small technical adjustment rather than “any shift in the intended stance of monetary policy”. Fed chair Powell opined that the recent softness is likely to be “transitory” and “we don’t see a strong case for moving in either direction” as “our baseline view remains that...inflation will return to 2 percent over time”. Even as the Fed shows no inclination to budge from its patient for longer stance, the futures market is still pricing around a 55% possibility of a rate cut by year-end. We suspect that other major central banks may also follow suit to warn against overly dovish expectations for imminent rate cuts. For instance, BOE governor Carney has also reiterated his hawkish bias, saying that if Brexit is smoothly resolved, “it will require more and more frequent interest rate increases than the market currently expects”.
- **For Singapore, a lacklustre 2Q19 remains the baseline scenario** following the 1Q19 GDP growth disappointment. MAS kept its S\$NEER policy settings unchanged in April and signalled no need for more supportive or restrictive policy settings, as the 1H growth lull is expected to see a mild turnaround in 2H19. The March industrial production print of 4.8% yoy implies the flash 1Q19 GDP growth could be revised up from 1.3% yoy to around 1.6% yoy, ceteris paribus. Business expectations surveys for the manufacturing and services sectors suggest 1Q19 may have been the bottom. A net weighted 4% and 1% of services and manufacturing firms see a more favourable business conditions in 2Q-3Q19, up from -4% and -14% respectively three months ago. Total bank loans growth slowed from 3.3% yoy to 2.2% yoy in March, the slowest since Nov16, as business loans growth eased to 3.4% (from 5.2%). The main drag came from consumer loans at 0.3% (from 0.5%), due to weak housing loans growth of 0.9% (lowest since at least 1992) amid the soft private residential property market. We think the private property market will also stay subdued amid upcoming supply concerns. The official expectation for 2019 GDP growth is slightly below the midpoint of the 1.5-3.5% forecast, while our house view is for 1.8-2% growth as 2Q19 is unlikely to see a strong pickup.

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- **For Malaysia, the question is if and when BNM will contemplate paring its OPR given the soft inflation prints of late.** Whilst there is some market speculation that an OPR cut may happen as early as the 7 May policy meeting, this will have to be balanced against the recent uptick in the USDMYR and news of the WGBI review and the omission of Emerging Market government and corporate bonds from the Norges Bank's Government Pension Fund Global fixed-income benchmark.

Forecasts

USD Interest Rates	2Q19	3Q19	4Q19	2020	2021
Fed Funds Target Rate	2.50%	2.50%	2.50%	2.25%	2.25%
1-month LIBOR	2.50%	2.51%	2.52%	2.28%	2.30%
2-month LIBOR	2.58%	2.59%	2.61%	2.32%	2.35%
3-month LIBOR	2.63%	2.66%	2.69%	2.34%	2.40%
6-month LIBOR	2.69%	2.72%	2.75%	2.40%	2.45%
12-month LIBOR	2.75%	2.73%	2.70%	2.45%	2.50%
1-year swap rate	2.57%	2.57%	2.58%	2.48%	2.53%
2-year swap rate	2.45%	2.46%	2.47%	2.50%	2.56%
3-year swap rate	2.39%	2.44%	2.48%	2.53%	2.58%
5-year swap rate	2.38%	2.44%	2.49%	2.55%	2.60%
10-year swap rate	2.53%	2.55%	2.56%	2.60%	2.62%
15-year swap rate	2.65%	2.66%	2.68%	2.67%	2.70%
20-year swap rate	2.71%	2.72%	2.73%	2.76%	2.75%
30-year swap rate	2.72%	2.73%	2.75%	2.77%	2.80%

SGD Interest Rates	2Q19	3Q19	4Q19	2020	2021
1-month SIBOR	1.83%	1.85%	1.90%	2.10%	2.15%
1-month SOR	1.94%	1.97%	2.00%	2.13%	2.18%
3-month SIBOR	1.98%	2.05%	2.13%	2.18%	2.20%
3-month SOR	2.02%	2.10%	2.18%	2.23%	2.25%
6-month SIBOR	2.06%	2.13%	2.20%	2.28%	2.30%
6-month SOR	2.08%	2.16%	2.23%	2.33%	2.35%
12-month SIBOR	2.20%	2.25%	2.30%	2.32%	2.34%
1-year swap rate	1.96%	1.98%	2.00%	2.20%	2.34%
2-year swap rate	1.95%	1.99%	2.01%	2.25%	2.35%
3-year swap rate	1.96%	1.99%	2.02%	2.27%	2.36%
5-year swap rate	2.03%	2.08%	2.12%	2.30%	2.38%
10-year swap rate	2.28%	2.30%	2.33%	2.36%	2.45%
15-year swap rate	2.53%	2.55%	2.57%	2.60%	2.64%
20-year swap rate	2.59%	2.61%	2.63%	2.66%	2.73%
30-year swap rate	2.61%	2.63%	2.65%	2.73%	2.78%

Malaysia	2Q19	3Q19	4Q19	2020	2021
OPR	3.25%	3.00%	3.00%	3.00%	3.00%
1-month KLIBOR	3.37%	3.32%	3.26%	3.30%	3.35%
3-month KLIBOR	3.61%	3.53%	3.45%	3.50%	3.52%
6-month KLIBOR	3.69%	3.59%	3.48%	3.52%	3.53%
12-month KLIBOR	3.77%	3.63%	3.50%	3.53%	3.54%
1-year swap rate	3.52%	3.49%	3.47%	3.54%	3.55%
2-year swap rate	3.52%	3.51%	3.50%	3.55%	3.58%
3-year swap rate	3.55%	3.54%	3.53%	3.58%	3.62%
5-year swap rate	3.62%	3.59%	3.55%	3.60%	3.65%
10-year swap rate	3.92%	3.91%	3.90%	3.94%	3.97%
15-year swap rate	4.11%	4.09%	4.07%	4.11%	4.12%
20-year swap rate	4.27%	4.25%	4.22%	4.26%	4.28%

UST bond yields	2Q19	3Q19	4Q19	2020	2021
2-year UST bond yield	2.33%	2.36%	2.41%	2.14%	2.20%
5-year UST bond yield	2.32%	2.34%	2.36%	2.19%	2.27%
10-year UST bond yield	2.55%	2.57%	2.60%	2.36%	2.45%
30-year UST bond yield	2.93%	2.94%	2.96%	2.82%	2.80%
SGS bond yields	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	1.93%	1.94%	1.95%	2.04%	2.08%
5-year SGS yield	2.00%	2.02%	2.04%	2.09%	2.12%
10-year SGS yield	2.19%	2.21%	2.23%	2.27%	2.30%
15-year SGS yield	2.39%	2.41%	2.43%	2.46%	2.50%
20-year SGS yield	2.39%	2.41%	2.42%	2.48%	2.53%
30-year SGS yield	2.58%	2.59%	2.60%	2.61%	2.62%
MGS forecast	2Q19	3Q19	4Q19	2020	2021
5-year MGS yield	3.55%	3.52%	3.49%	3.50%	3.52%
10-year MGS yield	3.73%	3.69%	3.65%	3.70%	3.75%

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