

Interest Rate Forecasts (May)

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Highlights

1. After major central banks rapidly slashed interest rates, injected liquidity and eased credit access, the risk aversion story which hit a peak in March eased in April, but may have run its course in the near-term. With more economic weakness to come amid the global recession story, expect that global rates may still chop around current ranges in May as investors await and assess what happens next as lockdowns are lifted, if there will be subsequent waves of infections and the potential policy responses, with EM markets (especially BRIC) in focus. With many fiscal and monetary policy bullets seen as largely spent, the policy focus is now likely to shift from injecting liquidity to buffering unemployment and managing corporate solvency.
2. Market players are awaiting the upcoming nonfarm payrolls and unemployment rate due on 8 May with abated breath and fear, with a record one-month blow from the Covid-19 outbreak highly anticipated. Investors are akin to flying blind in the current economic environment as the corporate earnings picture is obscured. Although some states are planning to lift restrictions in the next few weeks, the US economy may have to contend with a sluggish recovery. The Fed has signalled more may be done to boost the economy “forcefully, proactively and aggressively until we are confident that we are solidly on the road to recovery”. Until consumer spending which has plummeted makes a comeback, re-opening the economy is easier said than done. A stop-start pattern is more likely.
3. The Euro area is the worst hit area in this pandemic after the US amid the various national lockdowns. Countries including Germany and Italy have started lifting restrictions, but recovery is expected to be slow. The Eurozone economy shrank by a record 3.8% in 1Q20, worse than the contraction seen in the Global Financial Crisis. Countries that have imposed nationwide lockdowns faced steep declines in GDP, with French, Spanish and Italian economies shrinking by 5.8%, 5.2% and 4.7% respectively. The Eurozone manufacturing PMI plummeted to a record low of 33.6 while its services PMI plunged to 11.7 in April. A U-shaped recovery looks likely at this point, considering that the economy has been badly hit and countries would have to remain cautious even after lifting the restriction measures. The ECB warned that 2020 GDP growth could contract by 5-12%. While the ECB may choose to keep rates unchanged for now, it is still to continue adding to its plethora of programs, with the PELTRO being its latest addition.

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4. The Singapore economy contracted by 2.2% yoy according to Q1 flash estimates, marking its worst GDP yoy contraction since 1Q09. With the extended Circuit Breaker till 1 June and tightening of social distancing measures, 2Q20 may be worse with a double-digit contraction of potentially up to -20% yoy. With \$63.8 billion in fiscal stimulus already unveiled, the economy may not be able to escape a deep recession. With fiscal stimulus doing the heavy lifting amid the Covid-19 quagmire, monetary policy is likely to play a supporting role from here in managing liquidity and curbing excessive currency volatility. With the gradual easing of containment measures, the economic engine is likely to be restarted, albeit at a very sequenced fashion. A downward revision to the official growth forecast of -4% to -1% yoy is likely. MAS now expect both headline and core inflation levels to contract up to 1% yoy this year. We tip a -6% recession for 2020 with disinflationary pressure for both headline and core inflation at -0.4% yoy and -0.3% yoy respectively.

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| USD Interest Rates | 2Q20 | 3Q20 | 4Q20 | 2021 | 2022 |
|-----------------------|---------|---------|---------|---------|-----------|
| Fed Funds Target Rate | 0-0.25% | 0-0.25% | 0-0.25% | 0-0.25% | 1.0-1.25% |
| 1-month LIBOR | 0.30% | 0.30% | 0.30% | 0.60% | 1.30% |
| 2-month LIBOR | 0.45% | 0.40% | 0.35% | 0.65% | 1.33% |
| 3-month LIBOR | 0.50% | 0.45% | 0.40% | 0.75% | 1.35% |
| 6-month LIBOR | 0.60% | 0.48% | 0.60% | 0.85% | 1.40% |
| 12-month LIBOR | 0.80% | 0.75% | 0.70% | 0.95% | 1.45% |
| 1-year swap rate | 0.30% | 0.40% | 0.50% | 1.00% | 1.35% |
| 2-year swap rate | 0.32% | 0.43% | 0.53% | 1.05% | 1.40% |
| 3-year swap rate | 0.33% | 0.44% | 0.55% | 1.10% | 1.44% |
| 5-year swap rate | 0.40% | 0.49% | 0.57% | 1.15% | 1.50% |
| 10-year swap rate | 0.60% | 0.68% | 0.75% | 1.25% | 1.60% |
| 15-year swap rate | 0.75% | 0.80% | 0.83% | 1.30% | 1.68% |
| 20-year swap rate | 0.81% | 0.83% | 0.85% | 1.35% | 1.72% |
| 30-year swap rate | 0.82% | 0.85% | 0.88% | 1.40% | 1.80% |
| SGD Interest Rates | 2Q20 | 3Q20 | 4Q20 | 2021 | 2022 |
| 1-month SIBOR | 0.50% | 0.45% | 0.40% | 0.65% | 1.00% |
| 1-month SOR | 0.13% | 0.12% | 0.10% | 0.45% | 1.05% |
| 3-month SIBOR | 0.75% | 0.65% | 0.55% | 0.75% | 1.20% |
| 3-month SOR | 0.30% | 0.25% | 0.20% | 0.65% | 1.25% |
| 6-month SIBOR | 1.00% | 0.95% | 0.90% | 1.15% | 1.30% |
| 6-month SOR | 0.53% | 0.48% | 0.46% | 0.88% | 1.40% |
| 12-month SIBOR | 1.16% | 1.13% | 1.10% | 1.45% | 1.75% |
| 1-year swap rate | 0.45% | 0.60% | 0.80% | 0.90% | 1.00% |
| 2-year swap rate | 0.43% | 0.65% | 0.85% | 0.95% | 1.05% |
| 3-year swap rate | 0.47% | 0.71% | 0.90% | 1.00% | 1.10% |
| 5-year swap rate | 0.64% | 0.82% | 1.00% | 1.10% | 1.20% |
| 10-year swap rate | 0.87% | 1.06% | 1.25% | 1.37% | 1.50% |
| 15-year swap rate | 0.94% | 1.15% | 1.40% | 1.48% | 1.58% |
| 20-year swap rate | 0.99% | 1.25% | 1.45% | 1.55% | 1.65% |
| 30-year swap rate | 1.06% | 1.30% | 1.50% | 1.60% | 1.70% |

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| MYR forecast | 2Q20 | 3Q20 | 4Q20 | 2021 | 2022 |
|------------------------|-------|-------|-------|-------|-------|
| OPR | 2.00% | 2.00% | 2.00% | 2.25% | 2.50% |
| 1-month KLIBOR | 2.40% | 2.30% | 2.20% | 2.30% | 2.65% |
| 3-month KLIBOR | 2.50% | 2.35% | 2.25% | 2.35% | 2.75% |
| 6-month KLIBOR | 2.75% | 2.53% | 2.30% | 2.50% | 2.80% |
| 12-month KLIBOR | 2.85% | 2.60% | 2.35% | 2.55% | 2.85% |
| 1-year swap rate | 2.34% | 2.27% | 2.20% | 2.60% | 2.90% |
| 2-year swap rate | 2.15% | 2.20% | 2.25% | 2.65% | 2.95% |
| 3-year swap rate | 2.23% | 2.27% | 2.30% | 2.70% | 2.90% |
| 5-year swap rate | 2.32% | 2.35% | 2.40% | 2.75% | 2.95% |
| 10-year swap rate | 2.60% | 2.65% | 2.70% | 2.90% | 3.05% |
| 15-year swap rate | 2.85% | 2.90% | 3.00% | 3.10% | 3.20% |
| 20-year swap rate | 3.00% | 3.05% | 3.10% | 3.20% | 3.30% |
| UST bond yields | 2Q20 | 3Q20 | 4Q20 | 2021 | 2022 |
| 2-year UST bond yield | 0.18% | 0.25% | 0.30% | 0.85% | 1.10% |
| 5-year UST bond yield | 0.36% | 0.40% | 0.45% | 0.95% | 1.40% |
| 10-year UST bond yield | 0.63% | 0.70% | 0.75% | 1.30% | 1.65% |
| 30-year UST bond yield | 1.28% | 1.35% | 1.40% | 1.50% | 1.90% |
| SGS bond yields | 2Q20 | 3Q20 | 4Q20 | 2021 | 2022 |
| 2-year SGS yield | 0.40% | 0.45% | 0.50% | 0.70% | 0.95% |
| 5-year SGS yield | 0.50% | 0.65% | 0.75% | 0.90% | 1.05% |
| 10-year SGS yield | 0.88% | 0.99% | 1.10% | 1.25% | 1.40% |
| 15-year SGS yield | 1.05% | 1.10% | 1.15% | 1.30% | 1.45% |
| 20-year SGS yield | 1.15% | 1.20% | 1.25% | 1.40% | 1.55% |
| 30-year SGS yield | 1.25% | 1.30% | 1.35% | 1.50% | 1.60% |
| MGS forecast | 2Q20 | 3Q20 | 4Q20 | 2021 | 2022 |
| 3-year MGS yield | 2.30% | 2.35% | 2.40% | 2.50% | 2.60% |
| 5-year MGS yield | 2.40% | 2.45% | 2.50% | 2.65% | 2.80% |
| 10-year MGS yield | 2.50% | 2.55% | 2.60% | 2.75% | 2.95% |

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