

Rates Outlook

5 November 2019

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Interest Rate Forecasts (Nov)

Highlights

- **The ongoing tussle between hope and fear continues, but it looks like the former is in ascendency for now** amid the fortuitous combination of strong official hints of an imminent signing of the Phase 1 of the US-China trade deal, the averting of a no-deal Brexit with the flexible extension till 31 January 2020 (albeit a general election is scheduled for 12 December), and a resilient US labour market (with October nonfarm payrolls surprising on the upside with +128k versus 85k expected). The question is again how long would this risk-on momentum last before the year-end seasonality effects kick in and investors reset for the new year of 2020. Notably uncertainties like the impeachment investigation into US president Trump and the ongoing slump in manufacturing and trade, judging by the latest manufacturing Purchasing Managers Indices, have not fully dissipated.
- **Hitting the pause mode on the global monetary easing front.** The Fed has now completed its mid-cycle adjustment rate cuts and effectively raised the hurdle for future rate cuts by clearly signalling its intentions to pause in the near-term. This should be risk-supportive in the wake of the encouraging US labour market report after nonfarm payrolls surprising on the upside at 128k with +95k upward revision in the previous two months' data as well. This bodes well for EM assets but bearish for the USD in the near-term with the risk of a further recalibration in the UST bond market should the signing of the Phase 1 of the US-China trade deal materialise soon. The European Central Bank is also likely to await fresh directions under Christine Lagarde in the interim after the September bazooka by Draghi. Over in the Philippines, BSP governor Diokno also opined that the central bank has done "more than enough" after cutting interest rates three times.
- **The 10-year UST bond yield has now backed up some 30bps from its September low of 1.46%.** Fed chair Powell opined that "monetary policy is in a good place" and the "current stance of policy as likely to remain appropriate" as "there's plenty of risk left but I'd have to say that the risks seem to have subsided". This was in turn interpreted by market players as a "hawkish cut" signalling a pause in further rate cuts. The FOMC statement also omitted the pledge to "act as appropriate to sustain the expansion" but noted the committee will "assess the appropriate path of the target range for the federal funds rate". Meanwhile, probability of another 25bp rate cut at the 11 December FOMC has faded. We now see the next cut likely to be pushed back to 1Q20 awaiting further economic cues.

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- **The Macroeconomic Review flagged that Singapore's growth prospects may see fits and starts** with uneven growth across sectors. The output gap expected to widen a bit more and persist into 2020, but there are no signs of weakness widening into services and labour market so far. Monetary policy conditions are perceived as in a good place and may remain at the current setting for some time amid watchful vigilance over incoming data. The balance of risks had tilted towards lower inflation in a subdued demand environment. With the recent slump in SOR rates, the 3-month SIBOR-SOR tear has widened to 34bps (nearing the YTD peak of 36bps in July). The auction for the \$1.4b (of which MAS took \$100m) 7-year SGS bond re-opening fetched a bid-cover ratio of 1.86% with a cut-off yield of 1.73% and a tail of 4bps. There is no more SGS supply for the rest of 2019.

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USD Interest Rates	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
Fed Funds Target Rate	1.5-1.75%	1.25-1.5%	1.25-1.5%	1.25-1.5%	1.25-1.5%	1.25-1.5%	1.25-1.5%
1-month LIBOR	1.75%	1.60%	1.57%	1.53%	1.50%	1.55%	1.75%
2-month LIBOR	1.80%	1.65%	1.61%	1.57%	1.53%	1.58%	1.83%
3-month LIBOR	1.84%	1.70%	1.65%	1.60%	1.55%	1.60%	1.85%
6-month LIBOR	1.88%	1.75%	1.70%	1.65%	1.60%	1.65%	1.90%
12-month LIBOR	1.90%	1.80%	1.75%	1.69%	1.64%	1.70%	1.95%
1-year swap rate	1.72%	1.64%	1.64%	1.65%	1.65%	1.72%	1.97%
2-year swap rate	1.58%	1.44%	1.51%	1.59%	1.66%	1.75%	2.00%
3-year swap rate	1.55%	1.42%	1.50%	1.59%	1.67%	1.77%	2.02%
5-year swap rate	1.48%	1.47%	1.54%	1.61%	1.68%	1.80%	2.05%
10-year swap rate	1.63%	1.55%	1.60%	1.65%	1.70%	1.83%	2.08%
15-year swap rate	1.71%	1.65%	1.68%	1.70%	1.73%	1.86%	2.11%
20-year swap rate	1.77%	1.71%	1.72%	1.74%	1.75%	1.88%	2.13%
30-year swap rate	1.78%	1.73%	1.74%	1.76%	1.77%	1.90%	2.15%
SGD Interest Rates	4Q19	1Q20	2Q20	3Q20	4Q 20	2021	2022
1-month SIBOR	1.75%	1.70%	1.64%	1.59%	1.53%	1.48%	1.70%
1-month SOR	1.35%	1.33%	1.32%	1.31%	1.30%	1.50%	1.73%
3-month SIBOR	1.76%	1.72%	1.68%	1.64%	1.60%	1.52%	1.75%
3-month SOR	1.43%	1.41%	1.40%	1.39%	1.38%	1.53%	1.78%
6-month SIBOR	1.88%	1.83%	1.77%	1.70%	1.64%	1.55%	1.80%
6-month SOR	1.46%	1.44%	1.43%	1.41%	1.40%	1.56%	1.83%
12-month SIBOR	2.00%	1.85%	1.79%	1.74%	1.68%	1.58%	1.86%
1-year swap rate	1.41%	1.37%	1.35%	1.34%	1.32%	1.60%	1.80%
2-year swap rate	1.40%	1.38%	1.37%	1.36%	1.35%	1.62%	1.82%
3-year swap rate	1.41%	1.40%	1.39%	1.38%	1.37%	1.65%	1.85%
5-year swap rate	1.45%	1.43%	1.42%	1.40%	1.39%	1.75%	1.95%
10-year swap rate	1.60%	1.56%	1.54%	1.52%	1.50%	1.78%	1.98%
15-year swap rate	1.70%	1.65%	1.65%	1.65%	1.65%	1.80%	2.00%
20-year swap rate	1.76%	1.76%	1.74%	1.72%	1.70%	1.85%	2.05%
30-year swap rate	1.80%	1.78%	1.76%	1.74%	1.72%	1.93%	2.13%

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MYR forecast	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
OPR	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
1-month KLIBOR	2.95%	2.94%	2.93%	2.91%	2.90%	2.95%	3.05%
3-month KLIBOR	3.15%	3.11%	3.08%	3.04%	3.00%	3.05%	3.15%
6-month KLIBOR	3.35%	3.28%	3.20%	3.13%	3.05%	3.10%	3.20%
12-month KLIBOR	3.40%	3.33%	3.25%	3.18%	3.10%	3.15%	3.25%
1-year swap rate	3.10%	3.11%	3.13%	3.14%	3.15%	3.20%	3.35%
2-year swap rate	3.15%	3.16%	3.18%	3.19%	3.20%	3.25%	3.40%
3-year swap rate	3.20%	3.22%	3.23%	3.25%	3.26%	3.30%	3.50%
5-year swap rate	3.30%	3.30%	3.30%	3.30%	3.30%	3.35%	3.45%
10-year swap rate	3.38%	3.38%	3.38%	3.38%	3.38%	3.45%	3.55%
15-year swap rate	3.55%	3.56%	3.58%	3.59%	3.60%	3.65%	3.75%
20-year swap rate	3.65%	3.67%	3.69%	3.70%	3.72%	3.75%	3.85%
UST bond yields	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year UST bond yield	1.51%	1.47%	1.48%	1.49%	1.50%	1.55%	1.75%
5-year UST bond yield	1.52%	1.50%	1.52%	1.53%	1.55%	1.60%	1.80%
10-year UST bond yield	1.69%	1.65%	1.67%	1.68%	1.70%	1.75%	1.95%
30-year UST bond yield	2.18%	2.11%	2.12%	2.14%	2.15%	2.20%	2.33%
SGS bond yields	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year SGS yield	1.58%	1.57%	1.57%	1.56%	1.55%	1.65%	1.85%
5-year SGS yield	1.59%	1.58%	1.59%	1.60%	1.60%	1.71%	1.91%
10-year SGS yield	1.71%	1.69%	1.71%	1.73%	1.75%	1.80%	2.00%
15-year SGS yield	1.81%	1.80%	1.82%	1.84%	1.87%	1.85%	2.05%
20-year SGS yield	1.90%	1.89%	1.91%	1.93%	1.95%	2.00%	2.20%
30-year SGS yield	2.03%	2.02%	2.03%	2.04%	2.05%	2.10%	2.30%
MGS forecast	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
3-year MGS yield	3.00%	2.99%	2.98%	2.96%	2.95%	3.05%	3.10%
5-year MGS yield	3.15%	3.14%	3.13%	3.11%	3.10%	3.15%	3.25%
10-year MGS yield	3.30%	3.31%	3.33%	3.34%	3.35%	3.40%	3.50%

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