

Interest Rate Forecasts (Oct)

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Highlights

- **The tug of war for global bond markets continues:** With global growth prospects still looking depressed out into 2020 amid the US-China trade war, the concern is that major central banks like the Fed and ECB may have expended their monetary policy ammunition too early. Should the Fed really maintain their mid-cycle insurance cut story as coming to an early end, then the volatility in global bond markets may not be over. Moreover, there are growing doubts over the efficacy of monetary policy given the limited amounts of potential easing left.
- **The recent reprieve in US-China trade tensions seem to have boosted risk sentiment slightly but the negotiation road ahead remains fraught with challenges.** We think the Fed is still likely to deliver more rate cuts but will only do so reluctantly, as seen from the FOMC dot plot aggregate and the somewhat less dovish FOMC statement. We still see a 25bps rate cut by December and another cut in 1Q20.
- **From an asset allocation perspective, we have seen a rotation back from bonds into equities.** Global and US stock indices closed September on a high note, but the six-million-dollar question is whether the momentum will continue to sustain in 4Q19 or tank like back in 4Q18? If WeWorks' pulling of its IPO is any indication, some sense of market reality may be returning amid the US FOMC's reticence to pare interest rates down much further.
- **No smoke without fire: watch for potential decoupling of US-China economic ties over the medium term, notwithstanding the possibility of a mini-trade deal in the interim.** This decoupling may potentially extend from trade and manufacturing supply chains to US investments in Chinese markets and vice versa. That said, while the Emergency Economic Powers Act of 1977 may be used to bar future transfers of funds to a foreign country, Trump does not have the authority to rescind existing US investments. Moreover, delisting more than 150 Chinese firms listed in the US with a market capitalization of more than US\$1 trillion may be costly if there is a kneejerk market reaction.
- **On Singapore, with 2019 GDP growth tipped in the 0-1% range and core inflation likely to come in at the lower end of the 1-2% forecast range,** the focus is centred on MAS delivering the expected S\$NEER slope flattening in mid-October, followed by fiscal stimulus at the Budget in February 2020. Our 3Q19 GDP growth forecast is 0.3% yoy (1.9% qoq saar), versus 2Q19's 0.1% yoy (-3.3% qoq saar).

Rates Outlook

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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	1.70%	1.45%	1.47%	1.48%	1.50%	1.55%	1.75%
2-month LIBOR	1.75%	1.50%	1.51%	1.52%	1.53%	1.58%	1.83%
3-month LIBOR	1.80%	1.55%	1.55%	1.55%	1.55%	1.60%	1.85%
6-month LIBOR	1.85%	1.60%	1.60%	1.60%	1.60%	1.65%	1.90%
12-month LIBOR	1.87%	1.63%	1.63%	1.64%	1.64%	1.70%	1.95%
1-year swap rate	1.75%	1.65%	1.65%	1.65%	1.65%	1.72%	1.97%
2-year swap rate	1.55%	1.53%	1.57%	1.62%	1.66%	1.75%	2.00%
3-year swap rate	1.47%	1.45%	1.52%	1.60%	1.67%	1.77%	2.02%
5-year swap rate	1.43%	1.40%	1.49%	1.59%	1.68%	1.80%	2.05%
10-year swap rate	1.45%	1.50%	1.57%	1.63%	1.70%	1.83%	2.08%
15-year swap rate	1.45%	1.52%	1.59%	1.66%	1.73%	1.86%	2.11%
20-year swap rate	1.53%	1.59%	1.64%	1.70%	1.75%	1.88%	2.13%
30-year swap rate	1.55%	1.61%	1.66%	1.72%	1.77%	1.90%	2.15%
SGD Interest Rates	4Q19	1Q20	2Q20	3Q20	4Q 20	2021	2022
1-month SIBOR	1.83%	1.75%	1.68%	1.60%	1.53%	1.40%	1.70%
1-month SOR	1.60%	1.59%	1.58%	1.56%	1.55%	1.43%	1.73%
3-month SIBOR	1.85%	1.65%	1.63%	1.62%	1.60%	1.45%	1.75%
3-month SOR	1.63%	1.62%	1.62%	1.62%	1.62%	1.48%	1.78%
6-month SIBOR	1.88%	1.75%	1.71%	1.68%	1.64%	1.50%	1.80%
6-month SOR	1.66%	1.65%	1.65%	1.65%	1.65%	1.53%	1.83%
12-month SIBOR	2.00%	1.85%	1.79%	1.74%	1.68%	1.56%	1.86%
1-year swap rate	1.62%	1.58%	1.56%	1.55%	1.53%	1.60%	1.80%
2-year swap rate	1.55%	1.48%	1.50%	1.53%	1.55%	1.62%	1.82%
3-year swap rate	1.53%	1.50%	1.52%	1.55%	1.57%	1.65%	1.85%
5-year swap rate	1.55%	1.50%	1.53%	1.57%	1.60%	1.75%	1.95%
10-year swap rate	1.60%	1.55%	1.59%	1.62%	1.66%	1.78%	1.98%
15-year swap rate	1.70%	1.65%	1.67%	1.68%	1.70%	1.80%	2.00%
20-year swap rate	1.75%	1.70%	1.72%	1.73%	1.75%	1.85%	2.05%
30-year swap rate	1.80%	1.76%	1.77%	1.79%	1.80%	1.93%	2.13%

Rates Outlook

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MYR forecast	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
OPR	2.75%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
1-month KLIBOR	2.95%	2.75%	2.73%	2.72%	2.70%	2.75%	3.00%
3-month KLIBOR	3.10%	2.90%	2.90%	2.90%	2.90%	2.85%	3.10%
6-month KLIBOR	3.25%	3.00%	3.00%	3.00%	3.00%	3.05%	3.30%
12-month KLIBOR	3.40%	3.15%	3.13%	3.12%	3.10%	3.15%	3.40%
1-year swap rate	3.10%	3.00%	3.05%	3.10%	3.15%	3.20%	3.45%
2-year swap rate	3.15%	3.05%	3.15%	3.10%	3.20%	3.25%	3.50%
3-year swap rate	3.20%	3.11%	3.16%	3.21%	3.26%	3.30%	3.55%
5-year swap rate	3.25%	3.15%	3.20%	3.25%	3.30%	3.35%	3.60%
10-year swap rate	3.30%	3.25%	3.29%	3.33%	3.38%	3.45%	3.70%
15-year swap rate	3.40%	3.38%	3.35%	3.33%	3.30%	3.35%	3.60%
20-year swap rate	3.60%	3.58%	3.55%	3.53%	3.50%	3.55%	3.80%
UST bond yields	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year UST bond yield	1.43%	1.38%	1.42%	1.46%	1.50%	1.55%	1.75%
5-year UST bond yield	1.45%	1.40%	1.45%	1.50%	1.55%	1.60%	1.80%
10-year UST bond yield	1.55%	1.50%	1.53%	1.57%	1.60%	1.65%	1.85%
30-year UST bond yield	2.00%	1.95%	1.95%	1.95%	1.95%	2.05%	2.25%
SGS bond yields	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
2-year SGS yield	1.60%	1.57%	1.58%	1.59%	1.60%	1.65%	1.85%
5-year SGS yield	1.62%	1.60%	1.62%	1.64%	1.66%	1.71%	1.91%
10-year SGS yield	1.68%	1.65%	1.67%	1.69%	1.71%	1.75%	1.95%
15-year SGS yield	1.75%	1.70%	1.73%	1.76%	1.80%	1.85%	2.05%
20-year SGS yield	1.85%	1.80%	1.83%	1.85%	1.90%	1.95%	2.15%
30-year SGS yield	1.95%	1.90%	1.92%	1.94%	1.95%	2.05%	2.25%
MGS forecast	4Q19	1Q20	2Q20	3Q20	4Q20	2021	2022
3-year MGS yield	2.97%	2.86%	2.89%	2.92%	2.95%	3.00%	3.10%
5-year MGS yield	3.12%	3.01%	3.04%	3.07%	3.10%	3.15%	3.25%
10-year MGS yield	3.18%	3.05%	3.12%	3.18%	3.25%	3.15%	3.50%

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