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Interest Rate Forecasts (Sep)

Highlights

- **We are starting to see signs of pushback on overly dovish central bank expectations after global bond yields hit record lows in early September.** While US-China trade tensions continue to wax and wane, with the latest headlines suggesting that China may be willing to buy more US agricultural goods ahead of the upcoming trade talks in Washington, and Brexit uncertainties continue to wreak havoc in the UK Parliament, nevertheless, market players have been paring back expectations for the upcoming ECB and FOMC meetings on 12 and 19 September respectively.
- For the ECB, market players have already priced in between 10-20bps in rate cuts and more asset purchases of ~EUR30-40b, so barring an even more dovish forward guidance by outgoing Draghi for his swan song to set the stage for incoming Lagarde, we could see further position unwinding. Note former ECB vice president Constancio warned that "I'm not sure central banks will have to do whatever markets think" as "we're not in a recession". This came after the entire German yield curve fell below zero last month.
- **The latest escalation in US-China retaliatory tariffs on 1 September suggests the negotiation road ahead remains fraught with challenges.** While the Fed is likely to deliver more rate cuts, it will increasingly fade as a salve for nervous financial markets. We see a 25bp rate cut in September, one more 25bp cut by December and another cut in 1Q20.
- **For short-term SGD interest rates, the 3-month SIBOR remains relatively suppressed at 1.88%, but the 3-month SOR has risen slightly to 1.78% respectively.** Core inflation has eased to 0.8% yoy in July 2019 (lowest since April 2016) and MAS indicated that core inflation will likely come in within the lower half of its 1-2% forecast for 2019. This has further fuelled market speculation of MAS easing monetary policy in October. Watch the upcoming re-openings of the 15- and 2-year SGS bonds on 1 October, with the size announcement on 19 September and the auction on 26 September. With \$7.1b of 5-year SGS bond yields maturing on 1 October, we think demand for the upcoming SGS re-openings should be supportive if yields continue to back higher in the interim.

Rates Outlook

11 September 2019

USD Interest Rates	4Q19	1Q20	2Q20	3Q20	4Q20	2021
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-month LIBOR	1.85%	1.77%	1.68%	1.60%	1.51%	1.55%
2-month LIBOR	1.90%	1.81%	1.71%	1.62%	1.52%	1.58%
3-month LIBOR	1.95%	1.85%	1.74%	1.64%	1.53%	1.60%
6-month LIBOR	1.97%	1.86%	1.76%	1.65%	1.54%	1.65%
12-month LIBOR	2.00%	1.89%	1.78%	1.66%	1.55%	1.70%
1-year swap rate	1.25%	1.33%	1.41%	1.48%	1.56%	1.72%
2-year swap rate	1.30%	1.37%	1.44%	1.51%	1.58%	1.75%
3-year swap rate	1.33%	1.40%	1.47%	1.53%	1.60%	1.77%
5-year swap rate	1.35%	1.43%	1.50%	1.58%	1.65%	1.80%
10-year swap rate	1.37%	1.45%	1.54%	1.62%	1.70%	1.83%
15-year swap rate	1.45%	1.52%	1.59%	1.66%	1.73%	1.86%
20-year swap rate	1.53%	1.59%	1.64%	1.70%	1.75%	1.88%
30-year swap rate	1.55%	1.61%	1.66%	1.72%	1.77%	1.90%
SGD Interest Rates	4Q19	1Q20	2Q20	3Q20	4Q 20	2021
1-month SIBOR	1.83%	1.75%	1.68%	1.60%	1.53%	1.40%
1-month SOR	1.75%	1.69%	1.64%	1.60%	1.55%	1.43%
3-month SIBOR	1.76%	1.65%	1.63%	1.62%	1.60%	1.45%
3-month SOR	1.72%	1.70%	1.67%	1.65%	1.62%	1.48%
6-month SIBOR	1.88%	1.75%	1.71%	1.68%	1.64%	1.50%
6-month SOR	1.60%	1.58%	1.57%	1.56%	1.55%	1.53%
12-month SIBOR	2.00%	1.85%	1.80%	1.75%	1.70%	1.56%
1-year swap rate	1.62%	1.58%	1.57%	1.56%	1.55%	1.60%
2-year swap rate	1.55%	1.47%	1.49%	1.51%	1.53%	1.62%
3-year swap rate	1.53%	1.49%	1.51%	1.53%	1.55%	1.65%
5-year swap rate	1.52%	1.50%	1.53%	1.57%	1.60%	1.75%
10-year swap rate	1.57%	1.53%	1.57%	1.62%	1.66%	1.78%
15-year swap rate	1.70%	1.65%	1.67%	1.68%	1.70%	1.80%
20-year swap rate	1.72%	1.70%	1.72%	1.73%	1.75%	1.85%
30-year swap rate	1.78%	1.76%	1.77%	1.79%	1.80%	1.93%

Rates Outlook

11 September 2019

MYR forecast	4Q19	1Q20	2Q20	3Q20	4Q20	2021
OPR	2.75%	2.50%	2.50%	2.50%	2.50%	2.50%
1-month KLIBOR	2.98%	2.87%	2.77%	2.66%	2.55%	2.65%
3-month KLIBOR	3.25%	3.00%	2.87%	2.73%	2.60%	2.85%
6-month KLIBOR	3.30%	3.10%	2.95%	2.80%	2.65%	2.95%
12-month KLIBOR	3.45%	3.26%	3.08%	2.89%	2.70%	3.05%
1-year swap rate	2.97%	2.92%	2.86%	2.81%	2.75%	2.99%
2-year swap rate	3.00%	2.95%	2.90%	2.85%	2.80%	3.00%
3-year swap rate	3.02%	2.98%	2.94%	2.89%	2.85%	3.02%
5-year swap rate	3.06%	3.05%	3.03%	3.02%	3.00%	3.05%
10-year swap rate	3.25%	3.21%	3.18%	3.14%	3.10%	3.30%
15-year swap rate	3.40%	3.38%	3.35%	3.33%	3.30%	3.35%
20-year swap rate	3.60%	3.58%	3.55%	3.53%	3.50%	3.40%
UST bond yields	4Q19	1Q20	2Q20	3Q20	4Q20	2021
2-year UST bond yield	1.40%	1.36%	1.34%	1.32%	1.30%	1.40%
5-year UST bond yield	1.40%	1.37%	1.38%	1.39%	1.40%	1.45%
10-year UST bond yield	1.55%	1.53%	1.50%	1.48%	1.45%	1.55%
30-year UST bond yield	1.93%	1.88%	1.85%	1.83%	1.80%	1.90%
SGS bond yields	4Q19	1Q20	2Q20	3Q20	4Q20	2021
2-year SGS yield	1.60%	1.59%	1.58%	1.56%	1.57%	1.52%
5-year SGS yield	1.65%	1.61%	1.60%	1.59%	1.58%	1.55%
10-year SGS yield	1.67%	1.65%	1.64%	1.62%	1.61%	1.63%
15-year SGS yield	1.75%	1.70%	1.68%	1.66%	1.65%	1.70%
20-year SGS yield	1.83%	1.81%	1.79%	1.77%	1.75%	1.80%
30-year SGS yield	1.89%	1.88%	1.87%	1.86%	1.85%	1.90%
MGS forecast	4Q19	1Q20	2Q20	3Q20	4Q20	2021
5-year MGS yield	3.00%	2.99%	2.98%	2.96%	2.95%	3.00%
10-year MGS yield	3.20%	3.16%	3.13%	3.09%	3.05%	3.15%

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