

Interest Rate Forecasts (Sept)

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Highlights

1. **Let's run it hot! The US Federal Reserve's landmark policy shift to achieve average 2% inflation targeting as well as to use its full range of tools to achieve its maximum employment and price stability goals was articulated by Fed chair Powell at the recent Jackson Hole symposium ahead of the September FOMC.** The Fed recognised that due to the proximity of interest rates to the effective lower bound and the increased downward risks to employment and inflation, essentially following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This has provided the green light for the current risk rally and likely handicaps the USD further as the Fed commits to its zero-interest rate policy for the foreseeable future.
2. **A K-shape recovery trajectory?** Forget about a V, L or U-shape recovery as there is a new alphabet in town with "K". A K-shaped recovery from the Covid-19 pandemic means the divide between the haves and have-nots will widen, with the digitally savvy white-collar workers making a seamless transition to working from home, while essential and gig workers may be displaced and disproportionately affected. Similarly, different businesses may also see an uneven recovery depending on firm size, their cash hoards/access and industry dispersion. The implication is that monetary policy accommodation and especially fiscal policy assistance is likely to extend longer than expected. In turn, this could add to the reflation story, and attendant steeper yield curves, into 2021.
3. **It takes two to tango: US-China tensions have continued to notch higher** amid the South China Sea tensions, the placing of firms on entity lists and the economic sanctions etc even though bilateral phone calls have reaffirmed that the Phase 1 trade deal remains intact for now. As we have flagged before, noise levels are likely to ratchet higher into the 3 November elections, but this may not fully derail the current risk rally. One of the new parameters adding to the current US-China tension is Trump administration's increasing reliance on economic sanction to confront China. However, we think China's reaction function to the economic sanction could be different and China is unlikely to go down the path of tit-for-tat as we saw in 2018 during the trade war. As long as China plays a patient card to avoid a tit-for-tat trap, the impact of the escalating tension on global financial market may be limited.

Rates Outlook

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USD Interest Rates	3Q20	4Q2020	2021	2022
Fed Funds Target Rate	0-0.25%	0-0.25%	0-0.25%	0-0.25%
1-month LIBOR	0.15%	0.13%	0.20%	0.25%
2-month LIBOR	0.20%	0.18%	0.25%	0.30%
3-month LIBOR	0.25%	0.23%	0.30%	0.35%
6-month LIBOR	0.31%	0.30%	0.35%	0.40%
12-month LIBOR	0.45%	0.45%	0.50%	0.55%
1-year swap rate	0.24%	0.24%	0.30%	0.40%
2-year swap rate	0.23%	0.25%	0.32%	0.43%
3-year swap rate	0.24%	0.26%	0.34%	0.44%
5-year swap rate	0.34%	0.35%	0.40%	0.45%
10-year swap rate	0.72%	0.74%	0.82%	0.90%
15-year swap rate	0.94%	0.95%	1.03%	1.08%
20-year swap rate	1.04%	1.06%	1.15%	1.23%
30-year swap rate	1.11%	1.12%	1.22%	1.30%
SGD Interest Rates	3Q20	4Q2020	2021	2022
1-month SIBOR	0.25%	0.24%	0.29%	0.35%
1-month SOR	0.13%	0.12%	0.15%	0.20%
3-month SIBOR	0.41%	0.40%	0.45%	0.55%
3-month SOR	0.19%	0.17%	0.22%	0.30%
6-month SIBOR	0.61%	0.60%	0.65%	0.71%
6-month SOR	0.24%	0.22%	0.28%	0.35%
12-month SIBOR	0.81%	0.80%	0.86%	0.95%
1-year swap rate	0.26%	0.25%	0.37%	0.44%
2-year swap rate	0.31%	0.30%	0.40%	0.50%
3-year swap rate	0.38%	0.35%	0.44%	0.53%
5-year swap rate	0.58%	0.55%	0.65%	0.76%
10-year swap rate	0.94%	0.95%	1.06%	1.14%
15-year swap rate	1.08%	1.09%	1.15%	1.23%
20-year swap rate	1.08%	1.10%	1.20%	1.26%
30-year swap rate	1.11%	1.12%	1.25%	1.31%

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MYR forecast	3Q20	4Q2020	2021	2022
OPR	1.50%	1.50%	1.75%	2.00%
1-month KLIBOR	1.65%	1.65%	1.80%	2.10%
3-month KLIBOR	1.75%	1.75%	1.85%	2.15%
6-month KLIBOR	1.90%	1.90%	2.00%	2.30%
12-month KLIBOR	2.00%	2.00%	2.10%	2.35%
1-year swap rate	1.70%	1.70%	1.85%	2.40%
2-year swap rate	1.73%	1.73%	1.95%	2.45%
3-year swap rate	1.75%	1.75%	2.00%	2.50%
5-year swap rate	2.00%	2.00%	2.10%	2.55%
10-year swap rate	2.50%	2.50%	2.60%	2.70%
15-year swap rate	2.80%	2.80%	2.90%	3.02%
20-year swap rate	3.00%	3.00%	3.10%	3.20%
UST bond yields	3Q20	4Q2020	2021	2022
2-year UST bond yield	0.13%	0.13%	0.19%	0.25%
5-year UST bond yield	0.27%	0.30%	0.35%	0.45%
10-year UST bond yield	0.71%	0.75%	0.85%	0.96%
30-year UST bond yield	1.49%	1.54%	1.65%	1.72%
SGS bond yields	3Q20	4Q2020	2021	2022
2-year SGS yield	0.24%	0.25%	0.30%	0.35%
5-year SGS yield	0.54%	0.55%	0.60%	0.68%
10-year SGS yield	0.99%	1.04%	1.11%	1.20%
15-year SGS yield	1.31%	1.35%	1.40%	1.46%
20-year SGS yield	1.40%	1.41%	1.44%	1.51%
30-year SGS yield	1.26%	1.30%	1.45%	1.56%
MGS forecast	3Q20	4Q2020	2021	2022
3-year MSG yield	1.65%	1.65%	1.90%	2.40%
5-year MGS yield	1.95%	1.95%	2.05%	2.45%
10-year MGS yield	2.45%	2.45%	2.55%	2.65%

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