

Updated interest rate forecasts (Feb 2019)

Monday, February 04, 2019

Highlights

- The Fed essentially conceded that it is “prepared to adjust any of the details for completing balance sheet normalization in light of economic and financial developments”, in addition to reiterating its “patient” stance as it determines what future rate adjustments may be appropriate “in light of global economic and financial developments and muted inflation pressures”. The Fed unanimously kept its Fed Funds rate static at 2.25-2.5% as widely expected and dropped the references to “roughly balanced” risks and the need for “some further gradual” increases in the Fed Funds Rate target, albeit it “continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes”. The futures market is now pricing in only 10% probability of one rate hike by end-2019 and is starting to price in a possible rate cut next year. While Trump conceded to re-open the government, another shutdown on Feb 15 is impending if Trump still fails to receive wall funding by then and he re-threatened to declare a national emergency to build the border wall. The 10-year UST bond yield may make a run again for the recent 2.55% seen on 3 January. The 3-month LIBOR has also eased marginally from its recent 2.82375% high seen on 20 December to around 2.73625%.
- The 3-month SOR has retreated to 1.93524% down from the recent 2.02526% high seen on 23 January, but the 3-month SIBOR remains fairly stable around 1.89142%, notwithstanding the recent Fed capitulation. Note the 2-10 year SGS bond yield curve has collapsed further to just 16bps and is nearing the 14bps tight last seen on 27 December. The recent auction of \$2.9b of new 5-year notes, of which MAS took \$200m, fetched a bid-cover ratio of 2.08x (or 2.23x excluding the \$200m) and a cut-off yield of 2.06. The front end of the yield curve is currently very flat and offering very little pick-up out, as such, fixed income investors are likely to extend duration to the belly of the curve and longer tenors for the yield pick-up. There are two other 5-year bond re-openings scheduled for 1 April and 1 August this year. The next will be a 30-year re-opening on 1 March, with the size announcement on 19 February and auction on 26 February.
- Bank Negara Malaysia likely to remain static for now.

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Forecasts

USD Interest Rates	1Q19	2Q19	3Q19	4Q19	2020	2021
Fed Funds Target Rate	2.50%	2.50%	2.50%	2.50%	2.25%	2.25%
1-month LIBOR	2.53%	2.55%	2.58%	2.60%	2.35%	2.30%
2-month LIBOR	2.64%	2.66%	2.68%	2.70%	2.45%	2.40%
3-month LIBOR	2.81%	2.80%	2.80%	2.80%	2.55%	2.50%
6-month LIBOR	2.89%	2.91%	2.93%	2.95%	2.70%	2.65%
12-month LIBOR	3.03%	3.05%	3.08%	3.10%	2.85%	2.80%
1-year swap rate	2.85%	2.93%	3.02%	3.10%	2.85%	2.80%
2-year swap rate	2.80%	2.91%	3.03%	3.15%	2.90%	2.85%
3-year swap rate	2.76%	2.90%	3.04%	3.18%	2.93%	2.88%
5-year swap rate	2.76%	2.91%	3.05%	3.20%	2.95%	2.90%
10-year swap rate	2.88%	3.00%	3.13%	3.25%	3.00%	2.95%
15-year swap rate	2.95%	3.06%	3.17%	3.28%	3.03%	2.98%
20-year swap rate	2.97%	3.08%	3.19%	3.30%	3.05%	3.00%
30-year swap rate	2.98%	3.11%	3.23%	3.35%	3.10%	3.05%

SGD Interest Rates	1Q19	2Q19	3Q19	4Q19	2020	2021
1-month SIBOR	1.78%	1.91%	2.05%	2.18%	2.28%	2.33%
1-month SOR	1.79%	1.93%	2.06%	2.20%	2.30%	2.35%
3-month SIBOR	1.91%	2.02%	2.12%	2.23%	2.33%	2.38%
3-month SOR	1.95%	2.05%	2.15%	2.25%	2.35%	2.40%
6-month SIBOR	1.96%	2.07%	2.19%	2.30%	2.40%	2.45%
6-month SOR	1.98%	2.12%	2.26%	2.40%	2.50%	2.55%
12-month SIBOR	2.14%	2.24%	2.35%	2.45%	2.55%	2.60%
1-year swap rate	2.00%	2.15%	2.31%	2.46%	2.56%	2.61%
2-year swap rate	2.00%	2.16%	2.32%	2.48%	2.58%	2.63%
3-year swap rate	2.03%	2.19%	2.34%	2.50%	2.60%	2.65%
5-year swap rate	2.08%	2.24%	2.39%	2.55%	2.65%	2.70%
10-year swap rate	2.33%	2.44%	2.54%	2.65%	2.75%	2.80%
15-year swap rate	2.60%	2.63%	2.67%	2.70%	2.80%	2.85%
20-year swap rate	2.74%	2.76%	2.78%	2.80%	2.90%	2.95%
30-year swap rate	2.75%	2.80%	2.85%	2.90%	3.00%	3.05%

Malaysia	1Q19	2Q19	3Q19	4Q19	2020	2021
OPR	3.25%	3.25%	3.25%	3.25%	3.50%	3.50%
1-month KLIBOR	3.50%	3.57%	3.63%	3.70%	3.75%	3.80%
3-month KLIBOR	3.74%	3.78%	3.83%	3.87%	3.95%	4.00%
6-month KLIBOR	3.83%	3.87%	3.90%	3.93%	4.00%	4.05%
12-month KLIBOR	3.92%	3.95%	3.97%	3.99%	4.05%	4.10%
1-year swap rate	3.71%	3.74%	3.76%	3.78%	3.85%	3.88%
2-year swap rate	3.72%	3.75%	3.78%	3.81%	3.88%	3.91%
3-year swap rate	3.75%	3.78%	3.81%	3.84%	3.91%	3.97%
5-year swap rate	3.84%	3.87%	3.89%	3.91%	3.98%	4.10%
10-year swap rate	4.15%	4.19%	4.22%	4.29%	4.32%	4.40%
15-year swap rate	4.38%	4.40%	4.43%	4.45%	4.55%	4.59%
20-year swap rate	4.57%	4.60%	4.62%	4.64%	4.71%	4.82%

UST bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year UST bond yield	2.54%	2.60%	2.65%	2.70%	2.60%	2.55%
5-year UST bond yield	2.58%	2.66%	2.73%	2.80%	2.70%	2.65%
10-year UST bond yield	2.76%	2.84%	2.92%	3.00%	2.90%	2.85%
30-year UST bond yield	3.07%	3.13%	3.19%	3.25%	3.05%	3.00%
SGS bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	2.01%	2.07%	2.13%	2.12%	2.20%	2.25%
5-year SGS yield	2.03%	2.10%	2.18%	2.20%	2.30%	2.35%
10-year SGS yield	2.20%	2.30%	2.40%	2.50%	2.60%	2.65%
15-year SGS yield	2.45%	2.51%	2.58%	2.64%	2.75%	2.80%
20-year SGS yield	2.51%	2.57%	2.64%	2.70%	2.80%	2.85%
30-year SGS yield	2.63%	2.67%	2.71%	2.75%	2.85%	2.95%
MGS forecast	1Q19	2Q19	3Q19	4Q19	2020	2021
6-month yield	3.31%	3.36%	3.40%	3.45%	3.50%	3.60%
5-year MGS yield	3.82%	3.84%	3.85%	3.87%	3.95%	4.09%
10-year MGS yield	4.24%	4.24%	4.24%	4.24%	4.37%	4.45%

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