

## Updated interest rate forecasts (Jan 2019)

Thursday, January 24, 2019

### Highlights

- Financial markets remain volatile through December, notwithstanding the Trump-Xi agreement for a 90-day truce on fresh tariffs on the sidelines of the G20 summit, and 2019 started trading with a notably risk-off tone as well. This culminated in the trifecta of the Powell, China's universal reserve requirement ratio (RRR) cut and an upside surprise of strong US nonfarm payrolls (NFP of 312k) to plug the blood-letting in the markets. Note the 10-year UST bond rallied nearly 70 bps from the 2018 high of 3.24% on 8 November to a low of 2.55% on 3 January 2019 before backing up to 2.67% on 4 January 2019 (post-NFP and Powell). Meanwhile, the S&P500 also corrected some 16% within December itself as VIX spiked to a high of 36.07 on 24 December 2018 before easing back to around 21 as of 4 January 2019. The futures market has flipped from pricing in 2-3 rate hikes for 2019 just two months ago to now essentially looking for no hikes this year to the possibility of a rate cut, coupled with speculation of a tweak to the Fed's balance sheet unwinding process tells you how far market sentiments have shifted. Powell's reassurance that he's "listening sensitively to the message that markets are sending" and "with the muted inflation readings that we've seen, we will be patient as we watch to see how the economy evolves", as well as the promise to "we will be prepared to adjust policy quickly and flexibly and to use all of our tools to support the economy should that be appropriate to keep the expansion on track" suggests that a pause is likely for 1Q18. As such, the risk-on appetite may extend in the interim while investors await for future clarity from Fedspeak from Powell later this week, as well as the December FOMC minutes due 9 January for more clues ahead of the 31 January FOMC meeting. Our view is that the Fed is likely under both market and Trump pressures to pause at the 31 January FOMC meeting.
- S'pore's economic data have been softening in 2H18 and is likely to continue to decelerate into 1Q19. GDP growth came in at a slower 2.2% yoy (1.6% qoq saar) in 4Q18, marking a modest slowdown from 2.3% yoy (3.5% qoq saar) in 3Q18 but also the slowest yoy growth since 3Q16 (1.7% yoy). This brought the full-year 2018 GDP growth to 3.3% yoy, which is a modest slowdown from 3.6% in 2017, but within our expectations and also within the government's 3.0-3.5% yoy forecast range. The official 2019 GDP growth forecast currently stands at 1.5-3.5% yoy, which suggests some potential downside risk from 2018's 3.3% yoy print. Our 2019 GDP growth forecast is 2.7% yoy. Given the external economic environment remains fraught with uncertainties such as whether the 90-day truce for the US-China trade war will materialise into a more lasting deal, geopolitical tensions and lingering questions over China's growth slowdown. This is also coupled with a climate of choppy financial markets, somewhat wavering business and consumer confidence, and uncertainty over tightening global financial

Treasury Research  
Tel: 6530-8384

**Selena Ling**  
Tel: 6530-4887  
[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

conditions. For now, one key date ahead to watch includes the 2019 Budget on 18 February, which can incorporate a slightly looser fiscal stance if need be to accommodate any accentuated downside growth risks. Short-term SGD interest rates including the 3-month SIBOR and SOR have ticked higher into the year-end, which meant that SGS bond yields have also moved higher for the year-to-date despite the recent UST bond market rally.

- Malaysian interest rates remain fairly stable and BNM is unlikely to budge on the OPR for the course of 2019.

### Forecasts

<b>USD Interest Rates</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>2020</b>	<b>2021</b>
Fed Funds Target Rate	2.50%	2.75%	2.75%	3.00%	3.25%	3.25%
1-month LIBOR	2.64%	2.78%	2.91%	3.05%	3.30%	3.40%
2-month LIBOR	2.74%	2.86%	2.98%	3.10%	3.35%	3.45%
3-month LIBOR	2.89%	2.98%	3.06%	3.15%	3.40%	3.50%
6-month LIBOR	2.96%	3.04%	3.12%	3.20%	3.45%	3.60%
12-month LIBOR	3.07%	3.13%	3.19%	3.25%	3.60%	3.80%
1-year swap rate	2.88%	3.01%	3.13%	3.25%	3.65%	3.95%
2-year swap rate	2.83%	2.99%	3.14%	3.30%	3.68%	4.00%
3-year swap rate	2.80%	2.98%	3.17%	3.35%	3.70%	4.02%
5-year swap rate	2.82%	3.03%	3.24%	3.45%	3.73%	4.06%
10-year swap rate	2.92%	3.08%	3.24%	3.40%	3.82%	4.15%
15-year swap rate	2.99%	3.13%	3.28%	3.43%	3.87%	4.20%
20-year swap rate	3.01%	3.16%	3.30%	3.45%	3.91%	4.25%
30-year swap rate	3.02%	3.18%	3.34%	3.50%	4.00%	4.35%

<b>SGD Interest Rates</b>	<b>1Q19</b>	<b>2Q19</b>	<b>3Q19</b>	<b>4Q19</b>	<b>2020</b>	<b>2021</b>
1-month SIBOR	1.89%	2.02%	2.15%	2.28%	2.80%	3.05%
1-month SOR	1.93%	2.05%	2.18%	2.30%	2.83%	3.10%
3-month SIBOR	1.97%	2.09%	2.21%	2.33%	2.85%	3.25%
3-month SOR	2.10%	2.18%	2.27%	2.35%	2.86%	3.30%
6-month SIBOR	2.05%	2.17%	2.28%	2.40%	2.88%	3.37%
6-month SOR	2.05%	2.20%	2.35%	2.50%	2.89%	3.44%
12-month SIBOR	2.23%	2.34%	2.44%	2.55%	2.92%	3.47%
1-year swap rate	2.15%	2.29%	2.42%	2.56%	3.00%	3.49%
2-year swap rate	2.17%	2.31%	2.44%	2.58%	3.02%	3.51%
3-year swap rate	2.19%	2.33%	2.46%	2.60%	3.03%	3.53%
5-year swap rate	2.25%	2.38%	2.52%	2.65%	3.06%	3.56%
10-year swap rate	2.40%	2.52%	2.63%	2.75%	3.13%	3.64%
15-year swap rate	2.70%	2.73%	2.77%	2.80%	3.14%	3.65%
20-year swap rate	2.75%	2.80%	2.85%	2.90%	3.15%	3.67%
30-year swap rate	2.80%	2.86%	2.91%	2.97%	3.17%	3.70%

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	2.59%	2.70%	2.80%	2.90%	3.10%	3.33%
5-year UST bond yield	2.66%	2.80%	2.95%	3.09%	3.43%	3.53%
10-year UST bond yield	2.83%	2.97%	3.11%	3.25%	3.58%	3.80%
30-year UST bond yield	3.10%	3.19%	3.27%	3.36%	3.61%	4.00%
SGS bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	1.94%	2.00%	2.06%	2.12%	2.30%	2.40%
5-year SGS yield	1.98%	2.05%	2.13%	2.20%	2.40%	2.50%
10-year SGS yield	2.20%	2.34%	2.48%	2.62%	2.77%	2.87%
15-year SGS yield	2.43%	2.53%	2.64%	2.74%	2.85%	2.96%
20-year SGS yield	2.50%	2.60%	2.71%	2.81%	2.95%	3.05%
30-year SGS yield	2.60%	2.68%	2.77%	2.85%	3.00%	3.10%
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%

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W