

Updated interest rate forecasts (March 2019)

Tuesday, March 05, 2019

Highlights

- While global risk sentiments have been largely supported on the back of market anticipation of an imminent US-China trade deal, nevertheless the progress may remain fraught with risks given high expectation hurdles (note Lighthizer is looking for more than a “soybean solution” and stressing enforcement). That said, even the collapse of the Trump-Kim meeting did not fully douse market optimism in the near-term, albeit fund flows suggest that momentum in EM equities may be petering out and investors are awaiting for fresh catalysts. Trump’s continued criticism of Fed chair Powell as someone who likes to raise interest rates will likely keep the lid on any nascent Fed hawkishness in the interim, notwithstanding this Friday’s US labour market report which is likely to telegraph a picture of sustained health. Our house view is essentially for no Fed rate hike this year, and unless the economic winds tilt suddenly southwards, a pre-emptive Fed rate cut is also not apparent on the 6-month horizon either. This points to a fairly sustained flat yield curve and we would prefer to adopt a range trading mindset from here.
- For Singapore, MAS has revised its headline inflation forecast for 2019 down from 1-2% yoy to 0.5-1.5% yoy, but kept its MAS core inflation forecast unchanged at 1.5-2.5%. Conviction levels for a further tightening (via a S\$NEER slope steepening) is rapidly evaporating. The easing in headline inflation, coupled with the global tide of monetary policy intentions turning more dovish, may give the central bank more room to maneuver. Leading domestic economic indicators have sank like a rock, with the latest Nikkei Singapore PMI falling for the third straight month into contraction territory at 49.8 (-0.3 points) in February, which is also the third lowest print after April 2016 (49.4) and September 2018 (49.6) respectively. In particular, new business growth and new export orders have weakened, and companies have shed jobs for the second straight month, which may subsequently impact the domestic labour market if sustained. Coupled with the earlier manufacturing and electronics PMI prints, which also retreated further to 50.4 and 49.5 (4th consecutive month of contraction), the signs are pointing to a further deceleration of momentum in 1H19. We had earlier shaded down the 1Q19 manufacturing growth forecast to -0.5% yoy, and consequently our 2019 full-year GDP growth forecast from 2.7% yoy to 2.3% yoy.
- For Malaysia, we essentially see BNM as static for 2019, even if a preference for a more dovish policy inclination may start to emerge. While the recent deflationary inflation print had spurred speculation of a rate cut later in the year, especially given the domestic growth slowdown, nevertheless, the inflation is likely to trend higher from here due to the effects from the removal of the GST last year. As such, BNM may adopt a wait and see mode for the time being.

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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%	2.50%	2.50%
1-month LIBOR	2.48%	2.49%	2.51%	2.52%	2.55%	2.60%
2-month LIBOR	2.58%	2.59%	2.60%	2.61%	2.65%	2.69%
3-month LIBOR	2.62%	2.64%	2.67%	2.69%	2.75%	2.78%
6-month LIBOR	2.70%	2.72%	2.73%	2.75%	2.78%	2.80%
12-month LIBOR	2.90%	2.92%	2.93%	2.95%	2.98%	3.00%
1-year swap rate	2.68%	2.69%	2.71%	2.72%	2.85%	2.95%
2-year swap rate	2.69%	2.70%	2.72%	2.73%	2.78%	2.80%
3-year swap rate	2.70%	2.72%	2.73%	2.75%	2.80%	2.83%
5-year swap rate	2.72%	2.73%	2.74%	2.76%	2.81%	2.84%
10-year swap rate	2.78%	2.79%	2.79%	2.80%	2.85%	2.90%
15-year swap rate	2.90%	2.90%	2.89%	2.89%	2.91%	2.95%
20-year swap rate	2.92%	2.93%	2.93%	2.94%	2.96%	2.98%
30-year swap rate	2.93%	2.94%	2.95%	2.96%	2.98%	3.00%

SGD Interest Rates	1Q19	2Q19	3Q19	4Q19	2020	2021
1-month SIBOR	1.83%	1.91%	2.00%	2.10%	2.20%	2.30%
1-month SOR	1.97%	2.06%	2.16%	2.25%	2.30%	2.35%
3-month SIBOR	1.98%	2.08%	2.19%	2.30%	2.35%	2.40%
3-month SOR	2.00%	2.11%	2.22%	2.35%	2.45%	2.55%
6-month SIBOR	2.00%	2.11%	2.22%	2.37%	2.50%	2.60%
6-month SOR	2.03%	2.15%	2.28%	2.40%	2.55%	2.65%
12-month SIBOR	2.15%	2.23%	2.31%	2.45%	2.60%	2.67%
1-year swap rate	2.00%	2.16%	2.32%	2.48%	2.53%	2.68%
2-year swap rate	2.01%	2.17%	2.34%	2.50%	2.55%	2.70%
3-year swap rate	2.03%	2.19%	2.35%	2.51%	2.56%	2.71%
5-year swap rate	2.12%	2.25%	2.39%	2.52%	2.58%	2.72%
10-year swap rate	2.40%	2.45%	2.50%	2.55%	2.64%	2.75%
15-year swap rate	2.61%	2.62%	2.64%	2.65%	2.69%	2.78%
20-year swap rate	2.69%	2.71%	2.73%	2.75%	2.78%	2.80%
30-year swap rate	2.70%	2.73%	2.77%	2.80%	2.83%	2.85%

Malaysia	1Q19	2Q19	3Q19	4Q19	2020	2021
OPR	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
1-month KLIBOR	3.43%	3.44%	3.44%	3.45%	3.50%	3.55%
3-month KLIBOR	3.69%	3.70%	3.71%	3.72%	3.75%	3.80%
6-month KLIBOR	3.80%	3.81%	3.82%	3.83%	3.85%	3.87%
12-month KLIBOR	3.90%	3.92%	3.93%	3.95%	3.98%	3.99%
1-year swap rate	3.69%	3.69%	3.70%	3.70%	3.80%	3.91%
2-year swap rate	3.70%	3.71%	3.72%	3.73%	3.83%	3.93%
3-year swap rate	3.71%	3.72%	3.74%	3.75%	3.85%	3.95%
5-year swap rate	3.81%	3.82%	3.84%	3.85%	3.90%	3.98%
10-year swap rate	4.12%	4.13%	4.14%	4.15%	4.20%	4.24%
15-year swap rate	4.28%	4.30%	4.33%	4.35%	4.40%	4.45%
20-year swap rate	4.42%	4.43%	4.44%	4.45%	4.50%	4.55%

UST bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year UST bond yield	2.55%	2.58%	2.62%	2.65%	2.70%	2.75%
5-year UST bond yield	2.55%	2.60%	2.65%	2.70%	2.75%	2.80%
10-year UST bond yield	2.75%	2.76%	2.77%	2.78%	2.82%	2.85%
30-year UST bond yield	3.10%	3.12%	3.13%	3.15%	3.18%	3.20%
SGS bond yields	1Q19	2Q19	3Q19	4Q19	2020	2021
2-year SGS yield	2.00%	2.04%	2.08%	2.12%	2.30%	2.40%
5-year SGS yield	2.10%	2.13%	2.17%	2.20%	2.40%	2.50%
10-year SGS yield	2.30%	2.33%	2.37%	2.40%	2.50%	2.60%
15-year SGS yield	2.50%	2.52%	2.53%	2.55%	2.60%	2.70%
20-year SGS yield	2.55%	2.57%	2.58%	2.60%	2.65%	2.75%
30-year SGS yield	2.70%	2.72%	2.73%	2.75%	2.80%	2.82%
MGS forecast	1Q19	2Q19	3Q19	4Q19	2020	2021
6-month yield	3.30%	3.31%	3.32%	3.33%	3.36%	3.40%
5-year MGS yield	3.72%	3.73%	3.74%	3.75%	3.80%	3.85%
10-year MGS yield	3.90%	3.91%	3.93%	3.94%	3.97%	4.03%

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