

Interest Rate and FX Forecasts (Sep Update)

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Highlights

- 1. Higher terminal rate.** In view of the strong core US CPI and the hawkish Fed dot-plot, we have added to our rate hike expectations, now expecting a 75bp hike at the November FOMC meeting and a 50bp at the December FOMC meeting, which will bring the Fed funds rate to 4.25-4.50% by year-end, instead of 3.75-4.00% as we previously expected. We expect another 25bp hike in Q1-2023 leading to a terminal rate of 4.50-4.75%. Risk to our forecast profile is that there may be 50bp of hikes in early 2023 if core CPI refused to moderate.
- 2. Dot-plot vs market expectation.** The FOMC hiked the Fed funds target rate to 3.00-3.25% as expected. What came as a hawkish surprise was the dot-plot, which now has the 2022 median dot at 4.375% (corresponds to a Fed funds target range of 4.25-4.50%), and 2023 median dot at 4.625% (range of 4.50-4.75%). The 2022 median dot points to a likely 75bp-50bp hiking profile for the rest of this year. And if these hikes were delivered, then the hurdle would not be high for the FOMC to walk the talk and hike the Fed funds target rate to 4.50-4.75% which would require only a further 25bp hike in 2023. We note six FOMC members see the Fed funds rate at 4.75-5.00% by end-2023 hence the risk is there will be a total of 50bps of rate hike within Q1-2023. Fed funds futures and USD OIS were pricing in additional hikes of around 120bp by year-end, and a terminal rate of 4.80% (upper end), at the time of writing. These were in line with the dot-plot. The disagreement between the market and the dot-plot is that market still prices some rate cuts in 2023, and as such expect a lower Fed funds rate than the dot-plot at end 2023.
- 3. US CPI.** Earlier, August US inflation came in stronger than expected. Headline CPI decelerated less than expected, to a still elevated 8.3% YoY. More importantly, core CPI rebounded more strongly than expected, to 6.3% YoY from 5.9% prior. Goods ex food ex energy inflation edged higher to 7.06% YoY from 6.98% prior; the uptick was mild, but it bucked the trend of YoY moderation which had lasted for five months. Meanwhile, services less energy inflation continued to pick up, to 6.07% YoY. Higher core CPI could well mean inflation will be sticky downward, underlining the Fed's view that rates will stay higher for some time.
- 4. UST yields.** Rates to stay higher "for some time" shall see the remaining easing expectation in 2023 being gradually pushed to 2024, allowing the 2Y UST yield to adjust further higher to better align with the expected terminal rate. We expect the 2Y UST yield to reach 4.60% by end Q1-2023. Fed economic projections now have slower growth (1.2% for 2023 versus 1.7% as previously expected) and higher unemployment rate (4.4% for 2023 versus 3.9% prior), precisely reflecting their determination to hike rates despite the pain to the economy these hikes would bring. The more subdued economic outlook shall limit the upside to real yield while the expectedly aggressive

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rate hikes shall keep long-term inflation expectation better anchored. We therefore expect the 10Y breakeven to hover around the recent range of 2.35-2.55% and the 10Y real yield not to be able to rise much above the current 1.30% level which is already higher than the pre-Covid peak. These point to the 10Y nominal yield being capped at 3.90% on a multi-month horizon.

5. **Hawkish Fed, Russian escalation.** The macro environment is increasingly more challenging for procyclical FX with USD strengthening, rising risks of global growth slowdown and inflation running higher while central banks around the world embark on synchronous and rapid withdrawal of global monetary stimuli. Fed's substantial upward revisions to dots plot, core CPI and hawkish remarks at the recent FOMC meeting reaffirms Fed's willingness to tighten policy in the face of surging inflation, even at the expense of growth. In addition, the recent round of escalation in Russian geopolitical tensions over Ukraine suggests that the conflict could drag on for longer, posing risks to higher inflationary pressures, heightens the probability of hard-landing and further support demand for safe-haven proxy, including USD in the interim.
6. **More downward revision to procyclical Asian FX.** The toxic combination of tighter financial conditions, slowdown in China (housing market malaise, deteriorating trade outlook and diminishing hopes for removal of zero-covid policy) as well as Europe (energy crisis, Ukraine war disrupting supply chain) further added to global growth concerns. The sustained weakening in RMB past 7 per dollar is also a sentiment concern for pro-cyclical Asian FX. Taken together, the change in market dynamics argues for USD strength to persist in the near term and as such we are revising our USD/FX forecasts higher. In particular, we focus the bulk of the adjustments on procyclical FX, including CNY, KRW, TWD, THB, AUD and NZD vs. USD. Given no change to BoJ's dovish policy stance, we also revised USDJPY forecast higher to reflect the wider UST-JGB yield differentials.
7. **A push back in the turn of the USD.** We still believe a turn in the USD should come at some stage, possibly around the turn of 2023 when inflationary pressures show further signs of slowing, which in turn lead Fed to signal a stepdown in the pace of tightening. A peak in Fed hawkishness is one of the pre-conditions that need to be in place for the turn in the USD, ceteris paribus. Other signposts we are keeping a look out for are (1) when China's zero-covid policy is phased out; (2) any signs of ceasefire between Russia and Ukraine. Positive development on these fronts will be supportive of risk appetite and can add to the turn in the USD.

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USD Interest Rates	Current	Q422	Q123	Q223	2023
FFTR upper	3.25%	4.50%	4.75%	4.75%	4.75%
SOFR	2.25%	4.28%	4.53%	4.53%	4.53%
1M USD LIBOR	3.08%	4.38%	4.63%	4.63%	4.63%
3M USD LIBOR	3.64%	4.70%	4.85%	4.85%	4.80%
6M USD LIBOR	4.18%	4.90%	5.05%	5.05%	5.00%
12M USD LIBOR	4.80%	5.20%	5.25%	5.25%	5.20%
1Y USD IRS	4.60%	5.10%	5.15%	5.15%	5.10%
1Y SOFR OIS	4.35%	4.85%	4.90%	4.90%	4.88%
2Y USD IRS	4.53%	5.00%	5.10%	5.15%	5.10%
2Y SOFR OIS	4.26%	4.72%	4.88%	4.93%	4.88%
5Y USD IRS	4.03%	4.60%	4.75%	4.95%	5.00%
5Y SOFR OIS	3.74%	4.30%	4.47%	4.67%	4.72%
10Y USD IRS	3.76%	4.35%	4.55%	4.85%	5.00%
10Y SOFR OIS	3.48%	4.07%	4.30%	4.60%	4.75%
15Y USD IRS	3.69%	4.35%	4.55%	4.85%	5.05%
20Y USD IRS	3.58%	4.27%	4.47%	4.77%	4.97%
30Y USD IRS	3.32%	4.02%	4.27%	4.57%	4.77%
SGD Interest Rates	Current	Q422	Q123	Q223	2023
SORA	1.94%	3.58%	3.83%	3.83%	3.83%
1M SIBOR	2.40%	3.28%	3.53%	3.53%	3.53%
1M SOR	2.68%	3.55%	3.70%	3.75%	3.75%
3M SIBOR	2.81%	3.80%	3.95%	3.95%	3.90%
3M SOR	3.07%	3.75%	3.85%	3.90%	3.90%
6M SOR	3.40%	3.95%	4.05%	4.10%	4.10%
1Y SGD IRS	3.62%	4.15%	4.25%	4.30%	4.30%
1Y SGD OIS	3.57%	4.00%	4.10%	4.15%	4.15%
2Y SGD IRS	3.79%	4.27%	4.43%	4.48%	4.43%
2Y SGD OIS	3.61%	4.02%	4.18%	4.23%	4.18%
5Y SGD IRS	3.67%	4.05%	4.22%	4.42%	4.57%
5Y SGD OIS	3.43%	3.80%	3.97%	4.17%	4.32%
10Y SGD IRS	3.46%	4.07%	4.30%	4.60%	4.75%
10Y SGD OIS	3.21%	3.77%	4.00%	4.30%	4.45%
15Y SGD IRS	3.40%	4.07%	4.30%	4.60%	4.77%
20Y SGD IRS	3.36%	4.11%	4.34%	4.64%	4.81%
30Y SGD IRS	3.19%	4.13%	4.36%	4.66%	4.83%
MYR Interest Rates	Current	Q422	Q123	Q223	2023
OPR	2.50%	2.50%	3.00%	3.00%	3.00%
1M MYR KLIBOR	2.67%	2.75%	3.15%	3.15%	3.15%
3M MYR KLIBOR	3.03%	3.15%	3.30%	3.30%	3.30%
6M MYR KLIBOR	3.11%	3.18%	3.40%	3.40%	3.40%
12M MYR KLIBOR	3.21%	3.25%	3.50%	3.50%	3.50%
1Y MYR IRS	3.55%	3.50%	3.80%	3.80%	3.80%
2Y MYR IRS	3.79%	3.70%	3.90%	3.90%	4.00%
3Y MYR IRS	3.90%	3.80%	3.95%	3.95%	4.00%
5Y MYR IRS	4.15%	3.95%	4.15%	4.25%	4.30%
10Y MYR IRS	4.36%	4.40%	4.45%	4.45%	4.45%
15Y MYR IRS	4.51%	4.60%	4.75%	4.75%	4.75%
20Y MYR IRS	4.65%	4.85%	4.90%	4.92%	4.92%

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HKD Interest Rates	Current	Q422	Q123	Q223	2023
1M HKD HIBOR	2.61%	3.50%	3.65%	3.65%	3.65%
3M HKD HIBOR	3.18%	4.05%	4.15%	4.15%	4.10%
2Y HKD IRS	4.36%	4.50%	4.55%	4.60%	4.60%
5Y HKD IRS	4.02%	4.45%	4.50%	4.70%	4.75%
10Y HKD IRS	3.81%	4.20%	4.37%	4.67%	4.82%

UST bond yields	Current	Q422	Q123	Q223	2023
2Y UST	4.12%	4.50%	4.60%	4.60%	4.55%
5Y UST	3.94%	4.15%	4.25%	4.25%	4.30%
10Y UST	3.71%	3.90%	3.95%	3.95%	4.00%
30Y UST	3.64%	3.80%	3.95%	3.95%	4.05%
SGS bond yields	Current	Q422	Q123	Q223	2023
2Y SGS	3.24%	3.40%	3.50%	3.50%	3.45%
5Y SGS	3.24%	3.40%	3.50%	3.50%	3.50%
10Y SGS	3.17%	3.30%	3.40%	3.40%	3.50%
15Y SGS	3.18%	3.35%	3.45%	3.45%	3.55%
20Y SGS	3.22%	3.40%	3.50%	3.50%	3.60%
30Y SGS	3.23%	3.36%	3.46%	3.46%	3.56%
MGS forecast	Current	Q422	Q123	Q223	2023
3Y MGS	3.54%	3.60%	3.65%	3.65%	3.65%
5Y MGS	4.02%	4.05%	4.10%	4.15%	4.15%
10Y MGS	4.24%	4.35%	4.40%	4.40%	4.50%
IndoGB forecast	Current	Q422	Q123	Q223	2023
2Y IndoGB	5.57%	5.95%	6.10%	6.10%	6.10%
5Y IndoGB	6.73%	6.80%	6.85%	6.85%	6.85%
10Y IndoGB	7.22%	7.30%	7.35%	7.40%	7.40%

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FX	Spot	Dec-22	Mar-23	Jun-23	Sep-23
USD-JPY	138.96	142.00	141.00	140.00	138.00
EUR-USD	1.01	0.99	1.01	1.03	1.03
GBP-USD	1.16	1.13	1.14	1.15	1.16
AUD-USD	0.68	0.66	0.67	0.68	0.70
NZD-USD	0.61	0.59	0.60	0.61	0.61
USD-CAD	1.31	1.34	1.33	1.32	1.32
USD-CHF	0.98	0.97	0.96	0.95	0.94
USD-SEK	10.66	11.00	10.60	10.30	10.10
DXY	108.70	110.71	108.88	107.50	106.75
USD-SGD	1.40	1.41	1.40	1.39	1.38
USD-CNY	6.89	7.12	7.05	7.02	6.98
USD-THB	36.46	37.30	37.00	36.80	36.50
USD-IDR	14843.00	14950.00	14850.00	14750.00	14700.00
USD-MYR	4.48	4.58	4.53	4.50	4.46
USD-KRW	1338.10	1400.00	1385.00	1370.00	1360.00
USD-TWD	30.44	31.60	31.30	31.10	30.90
USD-HKD	7.85	7.85	7.84	7.83	7.81
USD-PHP	56.16	58.40	57.90	54.40	54.70
USD-INR	79.46	80.20	79.80	79.80	79.80
USD-VND	23451.00	23650.00	23600.00	23550.00	23150.00
EUR-JPY	139.70	140.58	142.41	143.50	142.14
EUR-GBP	0.87	0.88	0.89	0.89	0.89
EUR-CHF	0.98	0.96	0.97	0.97	0.97
EUR-SGD	1.40	1.40	1.41	1.42	1.42
GBP-SGD	1.62	1.59	1.60	1.60	1.60
AUD-SGD	0.96	0.93	0.94	0.95	0.97
NZD-SGD	0.86	0.83	0.84	0.85	0.84
CHF-SGD	1.43	1.45	1.46	1.46	1.47
JPY-SGD	1.01	0.99	0.99	0.99	1.00
SGD-MYR	3.20	3.25	3.24	3.24	3.23
SGD-CNY	4.94	5.05	5.04	5.05	5.06
SGD-IDR	10609.72	10602.84	10607.14	10611.51	10652.17
SGD-THB	26.17	26.45	26.43	26.47	26.45
SGD-PHP	40.18	41.42	41.36	39.14	39.64
SGD-CNH	4.94	5.05	5.04	5.05	5.06
SGD-TWD	21.78	22.41	22.36	22.37	22.39
SGD-KRW	960.08	992.91	989.29	985.61	985.51
SGD-HKD	5.62	5.57	5.60	5.63	5.66
SGD-JPY	99.45	100.71	100.71	100.72	100.00

*Spot refers to 31 August close

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