

## Interest Rate Forecasts (Sep)

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### Highlights

- 1. No dovish pivot from Fed Chair Powell.** At the recent Jackson Hole symposium, Powell reiterated the “unconditional” commitment to contain inflation, and that rates would stay higher for longer as longer-run interest rate estimates are not the place to stop or pause rate hikes. Nevertheless, this did not deter the market pricing of terminal rates around April-May 2023 and at least a 25bps rate cut before the end of 2023. In summary, Powell-induced market indigestion has temporarily dampened risk appetite near-term, but the test of the pudding will be the upcoming US labour market report and the August inflation reading due on 2 and 13 September ahead of the 22 September FOMC policy decision. In fact, Fed’s Mester explicitly opined that “even if the economy were to go into a recession we have to get inflation down” and supports lifting the policy rate to above 4% with no anticipated rate cuts in 2023. The other shoe to drop may be the ramp up in the Fed’s monthly cap for its Quantitative Tightening to US\$90b from September, comprising of US\$60b UST bonds and US\$35b MBS.
- 2. While the debate about whether we have seen the inflation peak continues, the energy crisis in Europe continues.** Oil prices are supported amid potential supply disruptions in Libya and the possibility of OPEC+ output cut. With the 3-day maintenance shutdown of the Nordstream pipeline supply, Germany has approved a set of energy-saving measures for the winter and boosted storage capacity. The EU is also planning an emergency intervention in the power market including possibly capping gas prices or a short-term tax on excessive profits by energy companies. Meanwhile, the ECB looks primed to hike 75bps rate hike on 8 September after the Eurozone’s inflation hit a fresh record high of 9.1%.
- 3. China stepped up its stimulus in August.** PBoC unexpectedly cut its 1-year MLF and 7-day reverse repo in the middle of August sending the 10-year government bond yield down by about 10bps. PBoC also delivered its second asymmetric loan prime rate cut with a larger than expected 15 bps cut on the 5-year LPR to stabilize the property market. Nevertheless, China’s short end money market rate rebounded as PBoC lowered the size of MLF offerings in August. We expect PBoC to continue to guide DR007 higher to 1.7-1.8% range in the coming months with partial MLF rollovers. The State Council announced additional 19 measures to support growth on top of 33 measures rolled out in May to resolve fiscal constraints while tackling emerging new challenges, which may yield an additional CNY1.5 trillion in funding support this year to boost infrastructure investments. However, the domestic equity market failed to outperform in August due to the uncertain outlook arising from its zero COVID strategy and the weak property market. US-listed Chinese stocks rose after the US and China reached an agreement on the audit issue for Chinese companies. Market will continue to watch the property market developments in the coming months.
- 4. The UST curve bearish flattened over the past month, as market added to rate hike expectations while recession fears lingered.** Market pricing of the

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terminal Fed fund rate went higher to 3.75-4.00%. After the September rate hike is delivered, the 2Y UST yield is likely to move forward to incorporate more expected rate hikes, and grind towards 3.70% by year-end with an upside risk. Upside to long-end yield remains constrained by long term inflation expectation and/or growth prospects, and as such the UST curve is likely to stay inverted across the 2s10s segment.

5. **SGD rates** have closely followed USD rates higher in the latest bout of upticks, failing to outperform amid the broad dollar strength. With higher than usual passthrough from USD rates onto SGD rates already, we expect any further upward move in SGD rates to be much less rapid than what has been observed YTD. On SGS, the last auction in the year is scheduled on 28 September with the 30Y re-opening. With supply well manageable, a lack of direct QT impact on the SGD market, and the recent underperformance, we expect SGS outperformance over USTs through to year-end.

The **IndoGB** curve flattened as BI started its rate hiking cycle, and as it has been selling front-end bonds it said it would buy some long-end bonds. The operational-twist together with the 2023 budget, if the numbers pan out, shall be constructive for long-end bonds. The 10Y IndoGB yield is likely to trade in a range of 7.0-7.20% despite expectedly higher US yields.

**MGS** outperformed USTs over the past month, with the 3Y MGS yield having fallen by almost 20bps during the month. Despite the high print of July CPI at 4.4%, BNM is still very likely to move on a gradual tightening path. Comparing to OPR prospects, the 3Y MGS is still ahead of the curve, though not as much ahead as a month ago. On balance, any upside to MGS yields shall be mild.

In **China**, CNY IRS have been trading on the soft side after the rate cuts on MLF, OMO reverse repo and LPRs. Still, market is reluctant to price in further rate cuts given the possibility of different combinations of policies. The 10Y CGB yield is likely to trade in a lower range of 2.6-2.7% with difficulty to break much lower amid supply risk.

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USD Interest Rates	Current	3Q22	4Q22	1Q23	2023
FFTR upper	2.50%	3.00%	3.75%	4.00%	4.00%
SOFR	2.28%	2.78%	3.53%	3.78%	3.78%
1M USD LIBOR	2.52%	2.88%	3.63%	3.88%	3.88%
3M USD LIBOR	3.07%	3.35%	3.95%	4.10%	4.05%
6M USD LIBOR	3.57%	3.75%	4.15%	4.30%	4.25%
12M USD LIBOR	4.12%	4.25%	4.40%	4.50%	4.45%
1Y USD IRS	3.91%	4.00%	4.20%	4.30%	4.25%
1Y SOFR OIS	3.65%	3.70%	3.90%	4.00%	4.03%
2Y USD IRS	3.84%	3.90%	4.15%	4.30%	4.30%
2Y SOFR OIS	3.56%	3.62%	3.87%	4.08%	4.08%
5Y USD IRS	3.38%	3.65%	3.95%	4.15%	4.25%
5Y SOFR OIS	3.10%	3.35%	3.67%	3.87%	4.00%
10Y USD IRS	3.22%	3.55%	3.85%	4.15%	4.25%
10Y SOFR OIS	2.94%	3.27%	3.57%	3.90%	4.00%
15Y USD IRS	3.24%	3.60%	3.90%	4.20%	4.30%
20Y USD IRS	3.18%	3.57%	3.90%	4.20%	4.35%
30Y USD IRS	2.97%	3.42%	3.75%	4.05%	4.25%
SGD Interest Rates	Current	3Q22	4Q22	1Q23	2023
SORA	2.34%	2.58%	3.03%	3.28%	3.23%
1M SIBOR	2.33%	2.58%	3.18%	3.23%	3.23%
1M SOR	2.40%	2.50%	2.88%	2.97%	3.10%
3M SIBOR	2.67%	2.85%	3.30%	3.35%	3.30%
3M SOR	2.81%	2.90%	3.18%	3.27%	3.30%
6M SOR	3.13%	3.20%	3.38%	3.47%	3.50%
1Y SGD IRS	3.29%	3.20%	3.34%	3.44%	3.55%
1Y SGD OIS	3.07%	3.00%	3.19%	3.29%	3.40%
2Y SGD IRS	3.35%	3.37%	3.52%	3.73%	3.73%
2Y SGD OIS	3.11%	3.12%	3.27%	3.48%	3.48%
5Y SGD IRS	3.20%	3.35%	3.52%	3.77%	3.90%
5Y SGD OIS	2.95%	3.10%	3.27%	3.52%	3.65%
10Y SGD IRS	3.14%	3.32%	3.52%	3.85%	3.95%
10Y SGD OIS	2.87%	3.07%	3.27%	3.60%	3.70%
15Y SGD IRS	3.20%	3.32%	3.52%	3.85%	3.97%
20Y SGD IRS	3.22%	3.34%	3.56%	3.89%	4.01%
30Y SGD IRS	3.22%	3.36%	3.58%	3.91%	4.03%
MYR Interest Rates	Current	3Q22	4Q22	1Q23	2023
OPR	2.25%	2.50%	2.50%	2.75%	3.00%
1M MYR KLIBOR	2.43%	2.65%	2.65%	2.90%	3.15%
3M MYR KLIBOR	2.73%	2.80%	2.80%	3.05%	3.30%
6M MYR KLIBOR	2.85%	2.95%	2.95%	3.20%	3.45%
12M MYR KLIBOR	2.94%	3.10%	3.10%	3.25%	3.45%
1Y MYR IRS	3.24%	3.25%	3.30%	3.35%	3.45%
2Y MYR IRS	3.49%	3.60%	3.70%	3.90%	4.00%
3Y MYR IRS	3.55%	3.70%	3.80%	3.95%	4.00%
5Y MYR IRS	3.67%	3.80%	3.95%	4.15%	4.30%
10Y MYR IRS	3.94%	4.20%	4.40%	4.45%	4.45%
15Y MYR IRS	4.31%	4.50%	4.60%	4.75%	4.75%
20Y MYR IRS	4.47%	4.75%	4.85%	4.90%	4.92%

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HKD Interest Rates	Current	3Q22	4Q22	1Q23	2023
1M HKD HIBOR	1.87%	1.80%	2.35%	2.45%	2.45%
3M HKD HIBOR	2.65%	2.53%	3.08%	3.13%	3.08%
2Y HKD IRS	3.65%	3.60%	3.65%	3.75%	3.80%
5Y HKD IRS	3.43%	3.55%	3.80%	3.95%	4.05%
10Y HKD IRS	3.33%	3.50%	3.75%	3.97%	4.07%

UST bond yields	Current	3Q22	4Q22	1Q23	2023
2Y UST	3.48%	3.55%	3.70%	3.90%	3.80%
5Y UST	3.29%	3.30%	3.45%	3.60%	3.80%
10Y UST	3.13%	3.10%	3.35%	3.50%	3.60%
30Y UST	3.24%	3.15%	3.40%	3.60%	3.70%
SGS bond yields	Current	3Q22	4Q22	1Q23	2023
2Y SGS	2.76%	2.80%	2.90%	3.10%	3.10%
5Y SGS	2.86%	2.85%	2.95%	3.10%	3.20%
10Y SGS	2.96%	2.90%	3.10%	3.20%	3.25%
15Y SGS	2.99%	3.00%	3.16%	3.26%	3.31%
20Y SGS	3.09%	3.05%	3.21%	3.31%	3.36%
30Y SGS	3.05%	3.01%	3.17%	3.27%	3.32%
MGS forecast	Current	3Q22	4Q22	1Q23	2023
3Y MGS	3.34%	3.45%	3.55%	3.60%	3.65%
5Y MGS	3.73%	3.80%	3.90%	4.00%	4.10%
10Y MGS	3.99%	4.15%	4.35%	4.40%	4.50%
IndoGB forecast	Current	3Q22	4Q22	1Q23	2023
2Y IndoGB	5.60%	5.70%	5.85%	6.00%	6.10%
5Y IndoGB	6.59%	6.60%	6.70%	6.75%	6.80%
10Y IndoGB	7.11%	7.15%	7.20%	7.30%	7.35%

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FX	Spot	Sep-22	Dec-22	Mar-23	Jun-23
USD-JPY	138.96	138.50	136.00	132.00	130.00
EUR-USD	1.0054	1.0100	1.0200	1.0300	1.0450
GBP-USD	1.1622	1.1600	1.1900	1.2200	1.2400
AUD-USD	0.6842	0.6900	0.7000	0.7100	0.7200
NZD-USD	0.6119	0.6200	0.6300	0.6500	0.6600
USD-CAD	1.3130	1.3000	1.2900	1.2600	1.2500
USD-CHF	0.9775	0.9700	0.9600	0.9200	0.9000
USD-SEK	10.6597	10.4000	10.1000	9.9000	9.6500
DXY	108.7000	108.1185	106.6692	104.8548	103.3009
USD-SGD	1.3971	1.3800	1.3670	1.3600	1.3500
USD-CNY	6.8904	6.8500	6.8000	6.7500	6.7000
USD-THB	36.46	35.80	35.00	34.80	34.20
USD-IDR	14843	14750	14600	14500	14350
USD-MYR	4.4760	4.4500	4.4200	4.4000	4.3500
USD-KRW	1338.10	1330.00	1300.00	1280.00	1265.00
USD-TWD	30.441	30.300	30.000	29.800	29.700
USD-HKD	7.8493	7.8400	7.8300	7.8200	7.8000
USD-PHP	56.16	56.00	55.50	55.00	54.50
USD-INR	79.46	79.50	79.20	78.50	78.00
USD-VND	23421	23400	23300	23250	23200
EUR-JPY	139.70	139.89	138.72	135.96	135.85
EUR-GBP	0.8651	0.8707	0.8571	0.8443	0.8427
EUR-CHF	0.9829	0.9797	0.9792	0.9476	0.9405
EUR-SGD	1.4048	1.3938	1.3943	1.4008	1.4108
GBP-SGD	1.6239	1.6008	1.6267	1.6592	1.6740
AUD-SGD	0.9561	0.9522	0.9569	0.9656	0.9720
NZD-SGD	0.8550	0.8556	0.8612	0.8840	0.8910
CHF-SGD	1.4294	1.4227	1.4240	1.4783	1.5000
JPY-SGD	1.0055	0.9964	1.0051	1.0303	1.0385
SGD-MYR	3.1996	3.2246	3.2334	3.2353	3.2222
SGD-CNY	4.9380	4.9638	4.9744	4.9632	4.9630
SGD-IDR	10610	10688	10680	10662	10630
SGD-THB	26.17	25.94	25.60	25.59	25.33
SGD-PHP	40.18	40.58	40.60	40.44	40.37
SGD-CNH	4.94	4.96	4.97	4.96	4.96
SGD-TWD	21.78	21.96	21.95	21.91	22.00
SGD-KRW	960.08	963.77	950.99	941.18	937.04
SGD-HKD	5.6179	5.6812	5.7279	5.7500	5.7778
SGD-JPY	99.45	100.36	99.49	97.06	96.30

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