

## Interest Rates Focus

### Updated interest rates forecasts

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- **FOMC outlook.** We continue to expect one 25bp cut in the Fed funds rate this year, but we are pushing this expectation to 3Q 2026 from June, upon upside risks to inflation in the near term. Risk is for a further delay in this expected cut. We expect the target range for the Fed funds rate to end the year at 3.25-3.50%.
- **UST yields.** If oil prices stay elevated for a longer period, then the impact through the growth channel will likely kick in, partially offsetting the impact of inflation on rates and bonds. On balance, we revise upward year-end forecasts for 10Y UST yield to 4.10% from 3.95%, and for 2Y UST yield to 3.60% from 3.50%.
- **SGD rates.** We were already expecting upside to SGD rates and SGS yields when we last made our forecasts in late February. We make minor adjustments to our forecasts - mildly higher for mid to long-end SGD OIS forecasts, and a more gradual upward normalization is expected at short-end SGD OIS.

#### USD rates

We continue to expect one 25bp cut in the Fed funds rate this year, but we are pushing this expectation to 3Q 2026 from June, upon upside risks to inflation in the near term. Risk is still for a further delay to this expected cut. We expect the target range for the Fed funds rate to end the year at 3.25-3.50%. This forecast profile reflects a balanced consideration between near-term inflation risk and softness in the labour market. We revise up our year-end forecast for 2Y UST yield to 3.60% from 3.50%, and for 10Y UST yield to 4.10% from 3.95%.

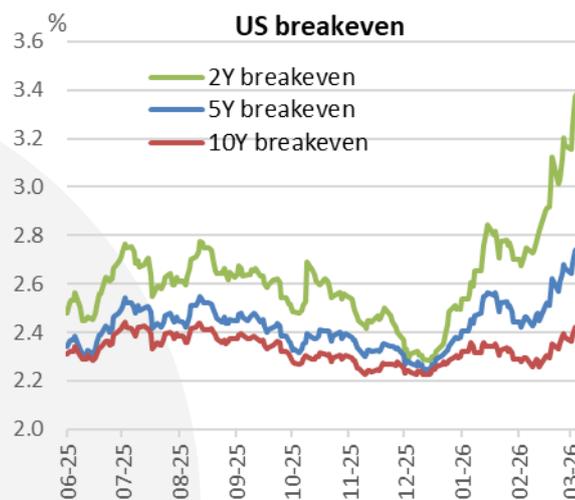
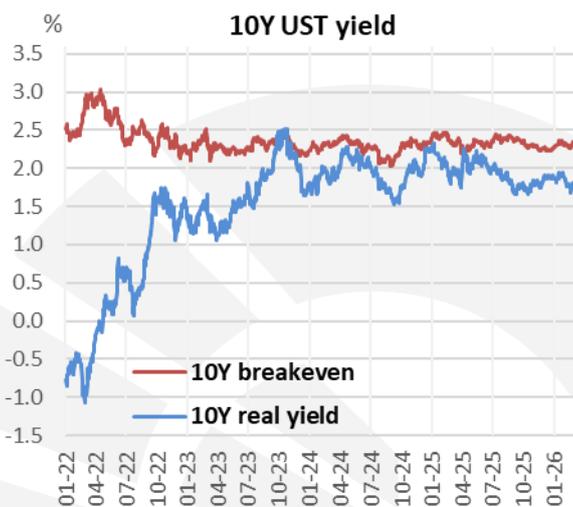
Impact of high oil prices on the rates market has been mainly through the inflation channel thus far, reflected in higher breakeven and hawkish re-pricing of central bank policy rates outlook. If oil prices stay elevated for a longer period, then the impact through the growth channel will likely kick in, partially offsetting the impact of inflation on rates and bonds.

We use year 2022 as a reference, when Brent hit a high of USD128/bbl (market close level) and averaged USD99/bbl for the full year. Year 2022 saw multiple spikes in 10Y breakeven, in March, April and June. 10Y breakeven averaged 2.78% in Mar-Jun 2022 period, and 2.54% in 2022. 10Y real yield averaged -0.07% in the Mar-June period and 0.41% in 2022 - these average real yield levels may not provide an appropriate

comparison as real yield underwent rapid normalization during 2022. We therefore use end-2022 level of 1.58% as a reference point. Adding 10Y breakeven at 2.78% (Mar-Jun 2022 average) and 10Y real yield at 1.58% (end-2022 level) gives a 10Y nominal yield of 4.36% - we revise up our 10Y UST yield forecast to 4.35% for 2Q 2026. Thereafter, premised on expectation for oil prices to ease gradually, yields are likely to soften alongside inflation expectations. On balance, we revise up mildly our year-end forecast for 10Y UST yield to 4.10% from 3.95% as previously expected.

At the short end, aligning with the expected Fed funds rate trajectory, there is limited upside to 2Y UST yield at 3.80% level unless there is further hawkish re-pricing of Fed funds rate – which cannot be ruled out as an interim reaction. Downside to 2Y UST yield will materialise towards the latter part of the year when the next rate cut comes nearer. We revise up year-end 2Y UST yield forecast to 3.60% from 3.50% as previously expected.

We have also noted that short-term inflation expectations were affected more than long-term inflation expectations. The US breakeven curve has become more inverted, exerting some flattening pressure on the UST curve, counteracting any steepening momentum which could have been brought about by a wider term premium. On balance, the 2s10s segment of the UST curve may mostly revert to the range of 50-60bps after breaking out of the range.



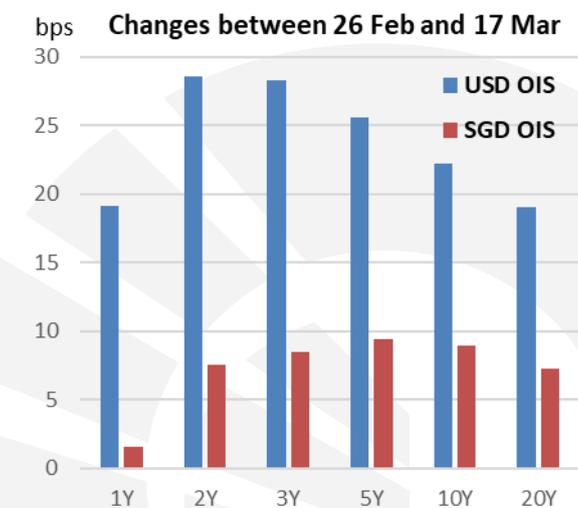
Source: Bloomberg, OCBC Group Research

## SGD rates

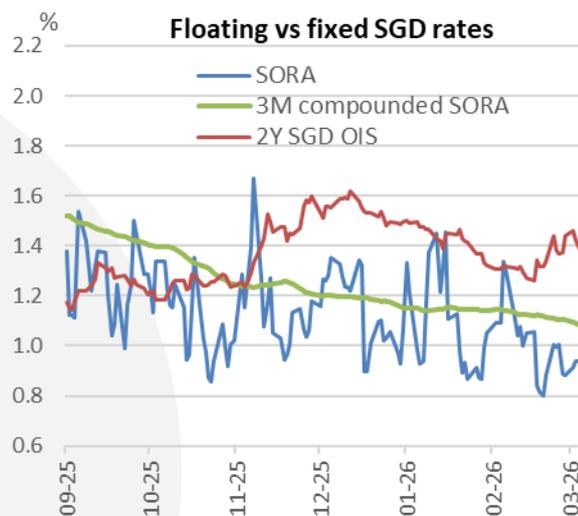
In the recent upward moves in interest rates, short-end SGD OIS outperformed USD rates thanks to flush SGD liquidity; the “passthrough” from USD rates onto SGD rates was well below 100%. At the mid to longer tenors, however, SGD OIS rose by slightly more than USD OIS did, i.e. the “passthrough” was above 100%. We had opined that the different perceived impact of high oil/energy prices on inflation had likely contributed to the relative performances at the longer end.

SGD liquidity may stay flush in the near term, with SGD NEER trading near the top end of the band while SGD assets benefit from safe-haven flows. With SORA the floating rate staying at low levels for most of the days, upside to 1Y SGD OIS is capped for now. Over the medium term, we continue to expect short-end SGD OIS to normalise upwards. Interest rates that are below 1.5% appear overly stimulative, compared to the economic outlook. Our base-case is for 2026 GDP growth at 3% and inflation at 1.3% while the Middle East conflicts pose upside risks to inflation.

We were already expecting upside to SGD rates and SGS yields when we last made our forecasts in late February. SGS yields and SGD OIS at 2Y tenor and above were last near our targets for end 2Q with some overshooting, while front-end SGD rates remained lower than our expectation. We make minor adjustments to our forecasts - mildly higher for mid-to-long end SGD OIS and SGS yield forecasts, and a more gradual upward normalization in short-end SGD OIS.



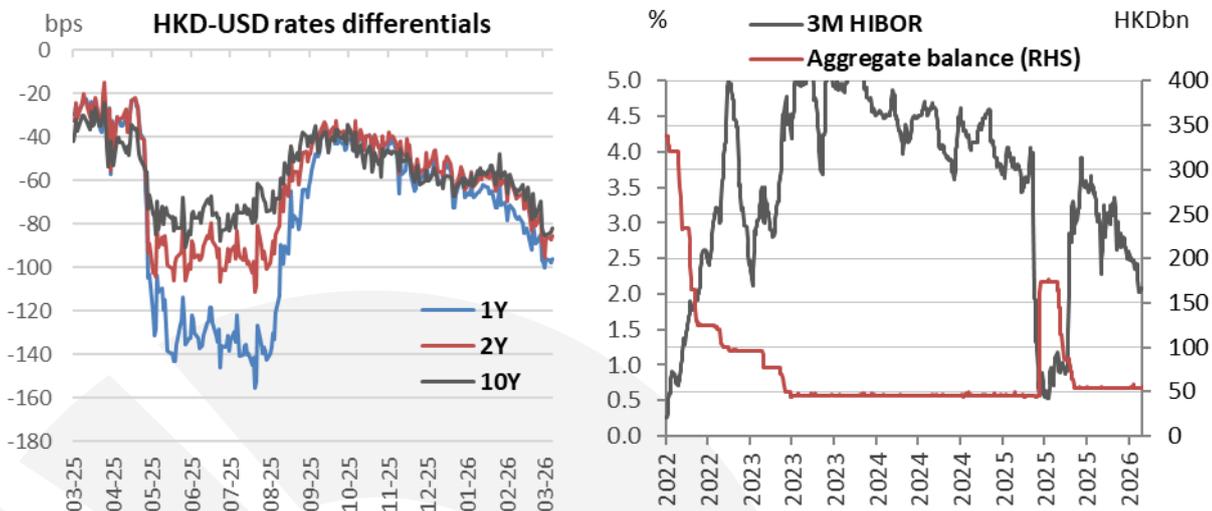
Source: Bloomberg, OCBC Group Research



## HKD rates

HKD IRS outperformed USD OIS in the recent upward moves in rates. As a result, HKD-USD rates spreads became more negative. HKD IRS – USD OIS spreads are more than two standard deviations below 6-month averages at most tenors. At current spread levels, we see limited room for HKD rates to further outperform USD rates. We have a mild upward bias to short-end HKD-USD rate spreads, especially when USD rates soften.

Front-end HKD rates can be sensitive to a tightening in liquidity at the current level of Aggregate Balance. Spot USD/HKD has been edging up. With HIBORs hovering at low levels and T/N point at around -5 pips per day, risk remains to the upside for spot. While spot is still some way away from the weak side convertibility undertaking of 7.8500, it worths monitoring for potential liquidity impact. In the scenario where spot touches 7.8500, initial impact of FX interventions is a tightening of HKD liquidity. Thereafter, potential shifts of liquidity from the bills market (EFBs) to the interbank market (aggregate balance) can smooth the liquidity condition but this may happen with a time lag and transient spikes in HIBORs cannot be ruled out.



Source: Bloomberg, OCBC Group Research

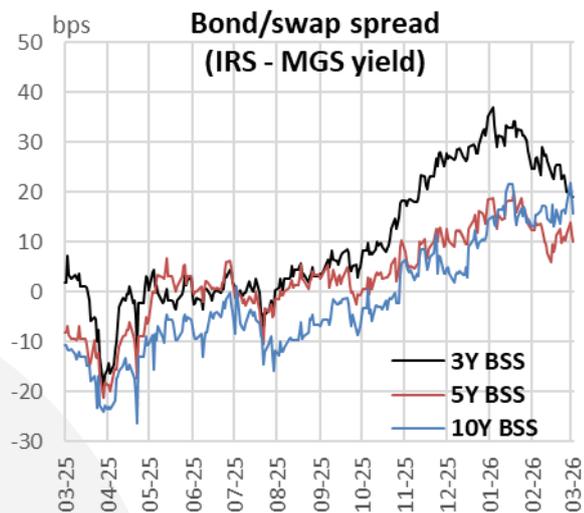
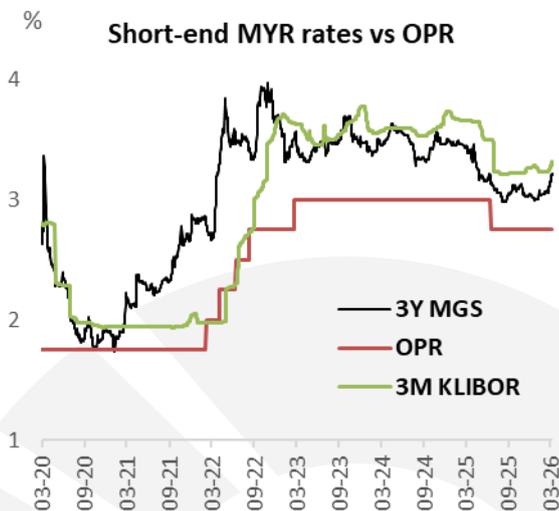
## IndoGBs

IndoGBs underperformed USTs and some other government bonds in the region during the latest leg of bond sell-off. Meanwhile, OCBC economists have removed their previous expectation for 50bps of policy rate cuts. Base-case is now for Bank Indonesia to keep policy rate unchanged at 4.75% for the remainder of this year. We revise upward short-end IndoGB yields forecasts to reflect this updated policy rate profile, while assuming some mild narrowing in 2Y yield – 7D repo rate spread over the coming quarters as sentiment gradually stabilises. At the 10Y, our upward revision reflects both higher UST yield and wider

IndoGB-UST yield differentials than previously assumed. We have held the view that 10Y IndoGB-UST yield differential at around 240bps would be supportive of the domestic bond during a constructive bond market environment. Given uncertainty on energy prices and a subdued risk sentiment, the yield differential probably will be maintained in a slightly wider range of 250-260bps before easing back to around 240bp level.

### MYR rates

MGS outperformed USTs and some regional government bonds during the recent bond sell-off, reflecting the domestic bonds' relatively stable nature. The MGS curve bearish flattened over the past weeks. The 3Y MGS yield – OPR spread widened to 45bps, while the 3Y bond/swap spread (IRS – yield) has also come off from the recent peak. We see room for 3Y yield – OPR spread to narrow back to the 30-35bps area. MYR rates market had already priced out rate cut before the Middle East conflicts escalated, while our house view has been for BNM to keep OPR unchanged at 2.75% through this year. We only made minor adjustments to MGS yields and MYR rates forecasts, mostly maintaining year-end expectation.



Source: Bloomberg, OCBC Group Research

## Interest Rates Forecasts

USD Interest Rates	2Q26	3Q26	4Q26	1Q27	2Q27
FFTR upper	3.75	3.50	3.50	3.50	3.50
SOFR	3.70	3.45	3.45	3.45	3.45
3M SOFR OIS	3.75	3.50	3.50	3.50	3.50
6M SOFR OIS	3.75	3.50	3.50	3.50	3.50
1Y SOFR OIS	3.65	3.50	3.50	3.50	3.50
2Y SOFR OIS	3.65	3.55	3.55	3.55	3.55
5Y SOFR OIS	3.65	3.60	3.60	3.60	3.60
10Y SOFR OIS	3.85	3.80	3.75	3.75	3.75
15Y SOFR OIS	3.95	3.90	3.80	3.80	3.80
20Y SOFR OIS	4.10	4.00	3.95	3.90	3.90
30Y SOFR OIS	4.10	4.05	4.05	4.00	4.00
SGD Interest Rates	2Q26	3Q26	4Q26	1Q27	2Q27
SORA	1.20	1.35	1.40	1.45	1.50
3M compounded SORA	1.15	1.28	1.38	1.43	1.48
3M SGD OIS	1.25	1.35	1.40	1.45	1.50
6M SGD OIS	1.25	1.35	1.40	1.45	1.50
1Y SGD OIS	1.30	1.40	1.50	1.55	1.55
2Y SGD OIS	1.45	1.55	1.60	1.60	1.60
3Y SGD OIS	1.60	1.60	1.65	1.65	1.65
5Y SGD OIS	1.80	1.80	1.85	1.85	1.85
10Y SGD OIS	2.15	2.20	2.25	2.25	2.25
15Y SGD OIS	2.25	2.30	2.30	2.30	2.30
20Y SGD OIS	2.25	2.30	2.30	2.30	2.30
MYR Interest Rates	2Q26	3Q26	4Q26	1Q27	2Q27
OPR	2.75	2.75	2.75	2.75	2.75
1M MYR KLIBOR	3.00	3.00	3.00	3.00	3.00
3M MYR KLIBOR	3.30	3.25	3.25	3.25	3.25
6M MYR KLIBOR	3.35	3.35	3.35	3.35	3.35
1Y MYR IRS	3.30	3.20	3.20	3.20	3.20
2Y MYR IRS	3.33	3.23	3.23	3.20	3.20
3Y MYR IRS	3.35	3.25	3.25	3.20	3.20
5Y MYR IRS	3.45	3.35	3.35	3.20	3.20
10Y MYR IRS	3.60	3.55	3.50	3.50	3.50
HKD Interest Rates	2Q26	3Q26	4Q26	1Q27	2Q27
1M HKD HIBOR	2.60	2.55	2.50	2.50	2.50
3M HKD HIBOR	2.75	2.70	2.65	2.65	2.65
6M HKD IRS	2.70	2.65	2.60	2.60	2.60
1Y HKD IRS	2.70	2.65	2.65	2.65	2.65
2Y HKD IRS	2.75	2.70	2.70	2.70	2.70
5Y HKD IRS	2.80	2.80	2.80	2.80	2.80
10Y HKD IRS	3.00	3.00	3.00	3.00	3.00
UST yields	2Q26	3Q26	4Q26	1Q27	2Q27
2Y UST	3.80	3.65	3.60	3.60	3.60
5Y UST	3.80	3.70	3.70	3.65	3.65
10Y UST	4.35	4.20	4.10	4.10	4.10
30Y UST	4.80	4.75	4.75	4.75	4.75
SGS yields	2Q26	3Q26	4Q26	1Q27	2Q27
2Y SGS	1.50	1.50	1.55	1.55	1.55
5Y SGS	1.70	1.75	1.75	1.75	1.75
10Y SGS	2.10	2.10	2.10	2.10	2.10
15Y SGS	2.15	2.15	2.15	2.15	2.15
20Y SGS	2.20	2.20	2.20	2.20	2.20
30Y SGS	2.30	2.25	2.25	2.25	2.25
MGS yields	2Q26	3Q26	4Q26	1Q27	2Q27
3Y MGS	3.15	3.10	3.05	3.05	3.05
5Y MGS	3.35	3.25	3.20	3.20	3.20
10Y MGS	3.55	3.50	3.45	3.40	3.40
IndoGB yields	2Q26	3Q26	4Q26	1Q27	2Q27
2Y IndoGB	5.90	5.80	5.75	5.75	5.60
5Y IndoGB	6.50	6.40	6.30	6.20	6.20
10Y IndoGB	6.85	6.75	6.60	6.50	6.50

Source: OCBC Group Research (Latest Forecast Update: 19 March 2026)

Forecasts for US interest rates	Current (18 Mar)	3M	6M	12M
Fed Funds Rate	3.75	3.75	3.50	3.50
2-Year US Treasury	3.80	3.80	3.65	3.60
5-Year US Treasury	3.80	3.80	3.70	3.65
10-Year US Treasury	4.35	4.35	4.20	4.10
30-Year US Treasury	4.80	4.80	4.75	4.75
Forecast for US SOFR swap rates	Current (18 Mar)	3M	6M	12M
2-Year Rate	3.62	3.65	3.55	3.55
5-Year Rate	3.58	3.65	3.60	3.60
10-Year Rate	3.80	3.85	3.80	3.75
30-Year Rate	4.07	4.10	4.05	4.00

Source: OCBC Group Research (Latest Forecast Update: 19 March 2026)

Note: The 3-, 6-, and 12-month forecasts may vary slightly over time even when the underlying outlook remains unchanged. This is because we use a single set of core FX and interest-rate forecasts anchored on quarter-end levels. From these quarter-end projections, we derive the 3-, 6-, and 12-month forecasts using straightforward methodologies, including interpolation. This approach ensures internal consistency across all forecast horizons.



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