

Rates Outlook

5 April 2021

Interest Rate Forecasts (April)

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Highlights

- Financial markets continue to look to 2Q21 with broadening hopes of improved growth and reflation amid the ongoing Covid vaccine rollout.** The latest US labour market report, with nonfarm payrolls surging 916,000 in March, has reinforced US economic exceptionalism and frontloaded Fed rate hike expectations yet again. The 10-year UST bond yield is likely to re-attempt and overtake the 1.75% handle yet again. However, the front-end money market rates remained anchored amid the cash glut. US President Biden's next US\$2.2 trillion infrastructure package is also supposed to add another 19 million jobs, so the question is if 2Q21 would be a replay of what transpired in 1Q21, namely risk-on appetite with stock market rotation and lower UST bonds, even if Fed chair Powell's narrative remains cautious. Note that US monetary market, equity and bond funds had already attracted a combined US\$68 billion.
- Not quite a taper tantrum, but mind the gap - with the higher UST bond yields and firmer USD dynamics, EM assets have come under some pressure.** Global manufacturing PMI prints telegraph demand growth, trade recovery and mild inflationary pressure as capacity utilization and employment prospects reaccelerate. The recent Archegos-related block trades and the Suez Canal blockage were just brief speed-bumps. With the Fed shifting its focus to a post-Covid world through a gradual unwinding of unprecedented policy support (eg. the lifting of bank stock buybacks and dividend caps at end-June and allowing the SLR exemption to expire), albeit still far from policy "normalization", other EM central banks have come to the realization that the window for further monetary policy easing may have closed due to narrowing yield differentials and renewed upside bias to USD-Asian FX.
- With firming US economic growth prospects, and acceleration in vaccine rollout, together with supply headwinds, the path of least resistance may be for UST bond yields to continue to test higher, albeit in fits and starts rather than a straight trajectory higher.** The FOMC narrative has also tilted to a cautiously more upbeat one, albeit they continue to hold the line that a taper is not imminent and a rate hike is still some way off. Later in the year, there is also expectations for a more permanent fix in the SLR calculation. The US infrastructure plan is impacting the market through economic optimism, rather than a direct bearing on supply – given that it is a long-term project spanning over eight years and a large part of it is to be financed via tax hikes. Nonetheless, supply remains as the key lingering headwind where every auction will be scrutinized to assess if supply can be readily absorbed without pushing yields higher. Meanwhile, the still negative real yields point to room for nominal yields to move higher still, even without a further pick-up in inflation expectations.

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4. **In Asia, SGS were sold off in March, with the 10-year yield briefly overtaking its UST counterpart.** The persistent steepening of the UST yield curve, however, coupled with the upcoming 15-year SGS re-opening on 3 May could see lingering selling pressure on the longer-dated SGS extend into April at least. On the IRS side, we look for further narrowing at front-end **SGD-USD spreads**, including spot and short-dated forward start spreads. Meanwhile, MGS had a relief rally as Malaysia was removed from FSTE WGBI watchlist – eliminating the uncertainty which had lingered for two years. Looking ahead, risk to yields is to the upside, taking cue from rising global yields. That said, MGS is likely to revert to a lower beta response to US yield movements. Recent **IndoGB** auctions did not went well. The funding gap needs to be filled by greenshoe option auctions with some misses still, suggesting that the adjustment of appropriate yield levels as seen by the government versus market levels is still a work in progress. This pattern of low acceptance at auctions may risk keeping investors on the sidelines.

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FX/Rates Forecast

USD Interest Rates	2Q21	3Q21	4Q21	2022	2023
Fed Funds Target Rate	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%
1-month LIBOR	0.13%	0.13%	0.13%	0.16%	0.20%
2-month LIBOR	0.17%	0.17%	0.18%	0.24%	0.30%
3-month LIBOR	0.23%	0.27%	0.28%	0.30%	0.40%
6-month LIBOR	0.24%	0.28%	0.30%	0.33%	0.45%
12-month LIBOR	0.32%	0.36%	0.38%	0.42%	0.54%
1-year swap rate	0.22%	0.26%	0.28%	0.32%	0.45%
2-year swap rate	0.30%	0.33%	0.38%	0.50%	0.75%
3-year swap rate	0.42%	0.44%	0.46%	0.53%	0.57%
5-year swap rate	1.09%	1.14%	1.22%	1.40%	1.55%
10-year swap rate	1.82%	1.92%	2.02%	2.12%	2.22%
15-year swap rate	2.09%	2.18%	2.27%	2.37%	2.45%
20-year swap rate	2.20%	2.30%	2.39%	2.48%	2.55%
30-year swap rate	2.25%	2.32%	2.41%	2.50%	2.59%
SGD Interest Rates	2Q21	3Q21	4Q21	2022	2023
1-month SIBOR	0.28%	0.29%	0.29%	0.30%	0.37%
1-month SOR	0.34%	0.34%	0.35%	0.36%	0.40%
3-month SIBOR	0.44%	0.44%	0.44%	0.47%	0.55%
3-month SOR	0.36%	0.36%	0.37%	0.38%	0.43%
6-month SIBOR	0.59%	0.59%	0.59%	0.63%	0.67%
6-month SOR	0.36%	0.37%	0.38%	0.40%	0.45%
1-year swap rate	0.36%	0.37%	0.37%	0.37%	0.45%
2-year swap rate	0.52%	0.53%	0.58%	0.62%	0.68%
3-year swap rate	0.63%	0.65%	0.67%	0.76%	0.86%
5-year swap rate	1.16%	1.19%	1.22%	1.24%	1.28%
10-year swap rate	1.80%	1.88%	1.95%	2.05%	2.15%
15-year swap rate	1.97%	2.07%	2.12%	2.22%	2.32%
20-year swap rate	1.92%	1.98%	2.05%	2.18%	2.30%
30-year swap rate	1.95%	2.05%	2.15%	2.27%	2.37%
MYR forecast	2Q21	3Q21	4Q21	2022	2023
OPR	1.75%	1.75%	1.75%	1.75%	1.75%
1-month KLIBOR	1.87%	1.87%	1.87%	1.90%	2.05%
3-month KLIBOR	1.95%	1.95%	1.95%	2.00%	2.15%
6-month KLIBOR	2.07%	2.07%	2.07%	2.10%	2.25%
12-month KLIBOR	2.21%	2.22%	2.23%	2.25%	2.40%
1-year swap rate	1.98%	2.00%	2.05%	2.10%	2.25%
2-year swap rate	2.11%	2.13%	2.15%	2.20%	2.35%
3-year swap rate	2.50%	2.55%	2.60%	2.65%	2.72%
5-year swap rate	2.78%	2.83%	2.90%	3.00%	3.10%
10-year swap rate	3.25%	3.32%	3.42%	3.45%	3.52%
15-year swap rate	3.56%	3.59%	3.65%	3.68%	3.72%
20-year swap rate	3.77%	3.82%	3.90%	3.92%	3.98%

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UST bond yields	2Q21	3Q21	4Q21	2022	2023
2-year UST bond yield	0.18%	0.22%	0.27%	0.40%	0.65%
5-year UST bond yield	0.97%	1.02%	1.10%	1.30%	1.45%
10-year UST bond yield	1.80%	1.90%	2.00%	2.10%	2.20%
30-year UST bond yield	2.50%	2.55%	2.60%	2.65%	2.70%
SGS bond yields	2Q21	3Q21	4Q21	2022	2023
2-year SGS yield	0.53%	0.55%	0.59%	0.65%	0.75%
5-year SGS yield	0.96%	1.00%	1.05%	1.18%	1.28%
10-year SGS yield	1.78%	1.85%	1.90%	2.00%	2.08%
15-year SGS yield	2.10%	2.12%	2.15%	2.22%	2.27%
20-year SGS yield	2.12%	2.15%	2.22%	2.34%	2.39%
30-year SGS yield	2.12%	2.16%	2.24%	2.36%	2.41%
MGS forecast	2Q21	3Q21	4Q21	2022	2023
3-year MGS yield	2.20%	2.30%	2.40%	2.55%	2.65%
5-year MGS yield	2.70%	2.75%	2.83%	2.95%	3.05%
10-year MGS yield	3.30%	3.37%	3.45%	3.48%	3.52%

FX	Spot	Apr-21	Jun-21	Sep-21	Dec-21	Mar-22
USD-JPY	110.76	111.76	112.40	112.75	112.57	112.38
EUR-USD	1.1716	1.1623	1.1550	1.1599	1.1734	1.1870
GBP-USD	1.3755	1.3607	1.3631	1.3584	1.3869	1.4155
AUD-USD	0.7536	0.7489	0.7441	0.7536	0.7709	0.7881
NZD-USD	0.6952	0.6910	0.6874	0.6952	0.7164	0.7376
USD-CAD	1.2599	1.2494	1.2391	1.2440	1.2423	1.2406
USD-CHF	0.9457	0.9526	0.9579	0.9374	0.9296	0.9218
USD-SGD	1.3476	1.3544	1.3544	1.3588	1.3323	1.3058
USD-CNY	6.5753	6.5920	6.5430	6.5214	6.4463	6.3711
USD-THB	31.31	31.55	31.74	31.63	31.07	30.50
USD-IDR	14,575	14,672	14,777	14,575	14,258	13,942
USD-MYR	4.1485	4.1604	4.1727	4.1102	4.0597	4.0092
USD-KRW	1132.90	1142.39	1141.90	1118.97	1101.45	1083.94
USD-TWD	28.527	28.578	28.622	28.371	28.170	27.970
USD-HKD	7.7744	7.7750	7.7800	7.7600	7.7550	7.7500
USD-PHP	48.53	48.62	48.68	48.53	48.32	48.10
USD-INR	73.11	73.29	72.75	72.52	71.92	71.33
EUR-JPY	129.76	129.91	129.83	130.78	132.09	133.40
EUR-GBP	0.8518	0.8542	0.8473	0.8539	0.8461	0.8386
EUR-CHF	1.1080	1.1072	1.1064	1.0873	1.0908	1.0942
EUR-SGD	1.5788	1.5743	1.5644	1.5760	1.5633	1.5499
GBP-SGD	1.8536	1.8430	1.8462	1.8457	1.8477	1.8483
AUD-SGD	1.0156	1.0143	1.0079	1.0240	1.0270	1.0291
NZD-SGD	0.9368	0.9359	0.9310	0.9446	0.9544	0.9632
CHF-SGD	1.4249	1.4218	1.4139	1.4495	1.4331	1.4165
JPY-SGD	1.2167	1.2119	1.2050	1.2051	1.1835	1.1619
SGD-MYR	3.0786	3.0717	3.0808	3.0249	3.0472	3.0703
SGD-CNY	4.8794	4.8670	4.8308	4.7996	4.8386	4.8791

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