

## Interest Rate Forecasts (August)

Selena Ling

Head of Strategy and Research

+65 65304887

[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)

Frances Cheung

Rates Strategist

+65 65305949

[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)

### Highlights

- 1. Rolling back of hawkish FOMC and inflation concerns amid the Delta variant uptick and reassuring messages from the Fed generally supported risk sentiments in July.** The recent July FOMC meeting reiterated that Fed members would “continue to assess progress in coming meetings” for the taper while keeping policy settings static for now. The FOMC also established a new standing repo facility that “will be expanded over time to include additional depository institutions” as well as a foreign repo facility. Fed chair Powell also basically downplayed risks from the rise of the Delta variant and reiterated he would want to see some substantial and “strong job numbers” first. While US’ 2Q21 GDP growth disappointed at 6.5% annualised due to an inventory contraction, hopes of the potential US\$1.1 trillion infrastructure package that is supposed to spur 2 million jobs per year over the next decade may reignite hopes of US economic exceptionalism.
- 2. China just reported that its official manufacturing PMI softened from 50.9 in June to 50.4 in July,** as both demand and supply moderated further, with the new export orders falling to 47.7 (contraction territory). The rest of Asian manufacturing PMIs mostly fared slightly better with the exception of South Korea (53.9 from 53.0 previously) and Japan (53.0 versus 52.2). The regional leader continued to be Taiwan (57.6 versus 59.7) whilst even laggards like Vietnam (45.1 versus 44.1) and Malaysia (40.1 versus 39.9) saw some stabilization. However, Indonesia’s PMI fell from 53.5 to 40.1 amid the Delta variant surge and extended lockdown, with a similar story for the Philippines (50.4 versus 50.8), Thailand (48.7 versus 49.5) and Myanmar (33.5 versus 41.5). This suggests that the Delta variant spread continues to exert an uneven toll across the Asian economies, depending on their vaccination progress and respective stages of economic re-opening. **The flash estimate of our OCBC SME Index (SMEI) show an increase to 58.3 in July from 54.8 in June, reflecting the continued recovery of SMEs.** However, the reversion to Phase 2 (Heightened Alert) from 22nd July may drag down activity, particularly for F&B (e.g., restaurants) and Advertising & Exhibition in Business Services (e.g., Event Organisers).

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3. **Major central banks have broken ranks on taper intentions, so market players will be closely watching Fed chair Powell's Jackson Hole speech on 26-27 August**, and the September FOMC meeting. While the July FOMC did not rock the boat and Powell continued to reassure that inflation is likely to be transitory and rate hike probabilities far divorced from taper intentions, nevertheless the fact that the 10-year UST bond yield has retraced close to the 1.2% handle may give rise to concern that the rally is overdone. Moreover, one has to grapple with the prospect that if the US\$1.1 trillion infrastructure package comes to pass, there may be some near-term upside to the US exceptionalism theme. Looking across the Eurozone, the ECB on the other hand is unwilling to deviate from its dovish policy accommodation stance as yet, despite signs of economic improvement. As for the RBA, RBNZ and BOE, only time will tell if their tilt towards more hawkish intentions will materialise. Asian central banks have digested the growth setback arising from the recent Delta variant uptick and are unsurprisingly reluctant to join the more hawkish camp for now, especially with China surprising with a universal RRR cut recently. The key exception is of course the BOK.
4. **In US, the fall in the 10Y nominal yield over the past month was mainly characterized by a fall in real yield**, while inflation expectation was flat to a tad higher. Key level for the 10Y UST is 1.28%; stronger traction to either direction will open up for a move to 1.47% on the upside and 1.14% on the downside. Over a multi-week horizon, our bias is for the 10Y yield to mostly trade at the 1.25-1.47% range, as market re-focuses on the taper prospect and economic data. The deeply negative real yield (back to the start of the year when vaccination rate was lower across and when the economic recovery hadn't started) and occasionally negative term premium reflect an overly pessimistic growth outlook.
5. In Asia, Front-end **SGD-USD rate spreads** narrowed over the past month amid flush SGD liquidity. Further narrowing hinges on USD liquidity, which is exceptionally flush currently but may normalize somewhat upon a resolution to the US debt ceiling – with the timeline likely delayed to September. **SGD IRS-OIS spreads** narrowed mildly over the month, probably upon some switches in corporate hedging flows. For bonds, the 5Y re-opening went smoothly with **SGS** issuance, on track with annual estimates of SGS (Market Development). The 10Y SGS yield shall gradually trade back to around/below 10Y UST yield without much supply pressure. **IndoGB** have stayed resilient in the past month, benefiting from falling UST yields. The plan to reduce net issuance for the rest of the year renders IndoGBs exhibiting a lower-than-usual beta response to the swings in the general risk sentiment. Meanwhile, FX volatility is contained not least because of the trade surplus and support via DNDF etc. Real yield differentials have stayed favourable. The **MGS** curve flattened over the past month along with the UST curve. The MGS market digested another potentially unfavourable development in the supply/demand dynamics. The impact from the domestic COVID situation appears to be mostly through growth concerns/safe-haven flows rather than supply headwinds for now. The curve shape is likely to stay fairly stable. **CGBs** outperformed regional peers in the past month, with onshore sentiment supported by the RRR cut. Further liquidity injections cannot be ruled out especially given the heavy MLF maturity profile in the coming months. That said, the PBoC is unlikely to flood the market, while LGB issuance may still pick up. The 10Y CGB yield is likely to mostly trade in a range of 2.80-3.00%.

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### FX/Rates Forecast

USD Interest Rates	Current	3Q21	4Q21	1Q22	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%	0.50-0.75%
SOFR	0.05%	0.05%	0.05%	0.06%	0.07%	0.55%
1-month LIBOR	0.09%	0.13%	0.13%	0.14%	0.16%	0.66%
2-month LIBOR	0.11%	0.16%	0.18%	0.20%	0.24%	0.74%
3-month LIBOR	0.13%	0.18%	0.24%	0.28%	0.40%	0.80%
6-month LIBOR	0.15%	0.20%	0.27%	0.30%	0.42%	0.83%
12-month LIBOR	0.24%	0.30%	0.34%	0.35%	0.47%	0.87%
1-year swap rate	0.16%	0.22%	0.27%	0.30%	0.42%	0.83%
2-year swap rate	0.27%	0.31%	0.36%	0.40%	0.65%	1.00%
3-year swap rate	0.48%	0.51%	0.56%	0.60%	0.80%	1.15%
5-year swap rate	0.80%	0.90%	1.07%	1.20%	1.45%	1.75%
10-year swap rate	1.27%	1.50%	1.75%	1.87%	2.15%	2.40%
15-year swap rate	1.50%	1.75%	2.02%	2.12%	2.27%	2.50%
20-year swap rate	1.60%	1.85%	2.14%	2.20%	2.38%	2.60%
30-year swap rate	1.66%	1.87%	2.15%	2.22%	2.50%	2.62%
SGD Interest Rates	Current	3Q21	4Q21	1Q22	2022	2023
SORA	0.13%	0.11%	0.11%	0.11%	0.13%	0.50%
1-month SIBOR	0.27%	0.29%	0.29%	0.29%	0.30%	0.65%
1-month SOR	0.16%	0.19%	0.24%	0.25%	0.34%	0.65%
3-month SIBOR	0.43%	0.43%	0.44%	0.45%	0.47%	0.80%
3-month SOR	0.19%	0.22%	0.27%	0.28%	0.38%	0.75%
6-month SIBOR	0.59%	0.59%	0.59%	0.60%	0.63%	0.87%
6-month SOR	0.20%	0.23%	0.28%	0.29%	0.38%	0.76%
1-year swap rate	0.23%	0.25%	0.29%	0.31%	0.40%	0.77%
1-year OIS	0.18%	0.20%	0.22%	0.22%	0.30%	0.66%
2-year swap rate	0.36%	0.39%	0.41%	0.43%	0.62%	0.98%
2-year OIS	0.27%	0.31%	0.32%	0.32%	0.50%	0.85%
3-year swap rate	0.57%	0.65%	0.67%	0.68%	0.76%	1.22%
5-year swap rate	0.81%	1.10%	1.18%	1.20%	1.24%	1.57%
10-year swap rate	1.23%	1.35%	1.50%	1.57%	1.95%	2.20%
15-year swap rate	1.36%	1.50%	1.70%	1.82%	2.10%	2.45%
20-year swap rate	1.37%	1.51%	1.75%	1.81%	2.10%	2.45%
30-year swap rate	1.37%	1.51%	1.75%	1.81%	2.10%	2.45%
MYR forecast	Current	3Q21	4Q21	1Q22	2022	2023
OPR	1.75%	1.50%	1.50%	1.50%	1.75%	2.00%
1-month KLIBOR	1.86%	1.67%	1.67%	1.72%	1.87%	2.05%
3-month KLIBOR	1.94%	1.75%	1.75%	1.75%	1.95%	2.20%
6-month KLIBOR	2.04%	1.84%	1.84%	1.84%	2.05%	2.25%
12-month KLIBOR	2.13%	2.00%	2.00%	2.05%	2.20%	2.40%
1-year swap rate	1.94%	1.80%	1.80%	1.85%	2.10%	2.30%
2-year swap rate	2.12%	2.13%	2.15%	2.20%	2.35%	2.50%
3-year swap rate	2.32%	2.40%	2.50%	2.55%	2.70%	2.85%
5-year swap rate	2.55%	2.68%	2.80%	2.85%	3.00%	3.15%
10-year swap rate	3.00%	3.12%	3.28%	3.33%	3.45%	3.60%
15-year swap rate	3.35%	3.40%	3.55%	3.59%	3.68%	3.80%
20-year swap rate	3.50%	3.65%	3.80%	3.83%	3.92%	4.04%

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UST bond yields	Current	3Q21	4Q21	1Q22	2022	2023
2-year UST bond yield	0.19%	0.22%	0.27%	0.30%	0.55%	0.90%
5-year UST bond yield	0.70%	0.80%	0.95%	1.07%	1.30%	1.60%
10-year UST bond yield	1.24%	1.50%	1.75%	1.82%	2.10%	2.35%
30-year UST bond yield	1.90%	2.05%	2.30%	2.40%	2.65%	2.70%
SGS bond yields	Current	3Q21	4Q21	1Q22	2022	2023
2-year SGS yield	0.37%	0.39%	0.42%	0.45%	0.65%	0.90%
5-year SGS yield	0.76%	0.85%	0.90%	1.02%	1.20%	1.45%
10-year SGS yield	1.32%	1.40%	1.55%	1.62%	1.90%	2.10%
15-year SGS yield	1.59%	1.72%	1.90%	2.02%	2.22%	2.27%
20-year SGS yield	1.67%	1.76%	2.00%	2.10%	2.25%	2.30%
30-year SGS yield	1.68%	1.80%	2.10%	2.15%	2.30%	2.37%
MGS forecast	Current	3Q21	4Q21	1Q22	2022	2023
3-year MGS yield	2.26%	2.35%	2.45%	2.47%	2.55%	2.65%
5-year MGS yield	2.62%	2.70%	2.83%	2.86%	2.95%	3.05%
10-year MGS yield	3.17%	3.33%	3.45%	3.46%	3.48%	3.52%

FX	Spot	Aug-21	Sep-21	Dec-21	Mar-22	Jun-22
USD-JPY	109.66	109.05	109.11	110.02	111.11	112.11
EUR-USD	1.1868	1.1731	1.1760	1.1765	1.1849	1.1993
GBP-USD	1.3894	1.4012	1.4001	1.4023	1.4136	1.4282
AUD-USD	0.7338	0.7258	0.7233	0.7218	0.7381	0.7618
NZD-USD	0.6962	0.6926	0.6915	0.7008	0.7178	0.7355
USD-CAD	1.2478	1.2431	1.2374	1.2250	1.2168	1.2094
USD-CHF	0.9058	0.9020	0.9007	0.9096	0.9117	0.9073
USD-SGD	1.3540	1.3603	1.3622	1.3627	1.3504	1.3329
USD-CNY	6.4664	6.4959	6.4655	6.4219	6.4037	6.3863
USD-THB	32.96	33.18	33.35	33.15	32.71	32.33
USD-IDR	14,473	14,517	14,541	14,391	14,274	14,228
USD-MYR	4.2262	4.2361	4.2312	4.2068	4.1769	4.1467
USD-KRW	1153.05	1161.34	1160.85	1139.60	1124.93	1118.52
USD-TWD	27.966	28.017	27.942	27.826	27.764	27.7006
USD-HKD	7.7744	7.7700	7.7750	7.7733	7.7533	7.7575
USD-PHP	50.03	50.20	50.29	50.31	49.91	49.35
USD-INR	74.42	74.82	74.77	74.25	73.92	73.77
EUR-JPY	130.14	127.92	128.31	129.44	131.65	134.45
EUR-GBP	0.8542	0.8372	0.8399	0.8390	0.8382	0.8397
EUR-CHF	1.0750	1.0581	1.0592	1.0701	1.0802	1.0881
EUR-SGD	1.6070	1.5957	1.6019	1.6032	1.6000	1.5985
GBP-SGD	1.8813	1.9060	1.9072	1.9109	1.9089	1.9036
AUD-SGD	0.9936	0.9873	0.9852	0.9836	0.9968	1.0154
NZD-SGD	0.9426	0.9422	0.9419	0.9549	0.9693	0.9804
CHF-SGD	1.4948	1.5082	1.5124	1.4982	1.4811	1.4691
JPY-SGD	1.2348	1.2475	1.2484	1.2386	1.2153	1.1889
SGD-MYR	3.1210	3.1141	3.1061	3.0871	3.0932	3.1110
SGD-CNY	4.7753	4.7753	4.7464	4.7126	4.7422	4.7913

## Treasury Research & Strategy

### Macro Research

**Selena Ling***Head of Research & Strategy*[LingSSSelena@ocbc.com](mailto:LingSSSelena@ocbc.com)**Tommy Xie Dongming***Head of Greater China Research*[XieD@ocbc.com](mailto:XieD@ocbc.com)**Wellian Wiranto***Malaysia & Indonesia*[WellianWiranto@ocbc.com](mailto:WellianWiranto@ocbc.com)**Howie Lee***Thailand & Commodities*[HowieLee@ocbc.com](mailto:HowieLee@ocbc.com)**Carie Li***Hong Kong & Macau*[carierli@ocbcwh.com](mailto:carierli@ocbcwh.com)**Herbert Wong***Hong Kong & Macau*[herberhtwong@ocbcwh.com](mailto:herberhtwong@ocbcwh.com)

### FX/Rates Strategy

**Frances Cheung***Rates Strategist*[FrancesCheung@ocbc.com](mailto:FrancesCheung@ocbc.com)**Terence Wu***FX Strategist*[TerenceWu@ocbc.com](mailto:TerenceWu@ocbc.com)

### Credit Research

**Andrew Wong***Credit Research Analyst*[WongVKAM@ocbc.com](mailto:WongVKAM@ocbc.com)**Ezien Hoo***Credit Research Analyst*[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)**Wong Hong Wei***Credit Research Analyst*[WongHongWei@ocbc.com](mailto:WongHongWei@ocbc.com)

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