

Interest Rate Forecasts (Dec)

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Highlights

1. **With the US elections out of the way and the transition to President-elect Biden beginning to be underway, market focus has reverted to vaccine optimism and also Biden's Cabinet appointments.** With rising hopes that a Covid-19 vaccine roll-out could materialise before the year-end in the US and the UK, and with more than 150 countries including China in the global Covax initiative pledging to equitably distribute vaccines, this could be the best Christmas present ever and could cement the reflation theme into 2021. Any US fiscal stimulus forthcoming will be the icing on the cake.
2. **On the central bank front, FOMC and ECB are tipped to tweak their bond purchase programs soon, possibly as early as December 2020.** The November meeting minutes showed that "many participants judged that the Committee might want to enhance its guidance for asset purchases fairly soon", with new guidance potentially coming at the 15 December FOMC. There was also Fed consensus that its exit strategy should be to taper its asset purchases before any rate hikes. This came as financial conditions tightened slightly, albeit still very accommodative due to the rally in risk assets and softer USD. The 3-month LIBOR continues to hover around the 0.22% handle and while issuance activity may slow into the year-end, there are little signs of any year-end funding crunch.
3. **China's recovery momentum remained strong in November with both manufacturing PMI and non-manufacturing PMI posting positive growth.** We keep our 2020 GDP forecast unchanged at 2.0% yoy but revised up our 2021 GDP forecast to 9.2% yoy from 8.2% yoy previously. China's rates traders may face a tougher time ahead, as the room for more easing is limited given the strong growth momentum and China's shift towards keeping leverage ratio in check. On credit, volatility in both China's onshore RMB credit market and offshore dollar credit market increased in November for different reasons. Domestically, the default of AAA rated SOEs affected the credibility of China's implicit guarantee. Externally, the outgoing Trump Administration continues to pressure Chinese companies, as more firms are sanctioned on alleged military ties. Nevertheless, we think the impact of Trump's new confrontation policy is likely to be temporary. Currency wise, given China's increasing focus on the independence of monetary policy, control over the currency volatility is likely to loosen gradually. This suggests that China's tolerance for a possible overshoot of the RMB may increase in the near term.
4. **Brent almost attempted \$50/bbl in November** – a remarkable turnaround for an asset that traded briefly below \$20/bbl just six months ago. In the commodity space, the energy complex had the largest selloff this year. The rotation of funds into value sectors has benefited crude oil, with Brent and WTI outperforming nearly all other commodities since the vaccine breakthrough early last month. We expect the outperformance to continue.

Rates Outlook

2 December 2020

USD Interest Rates	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
Fed Funds Target Rate	0-0.25%	0-0.25%	0-0.25%	0-0.25%	0-0.25%	0-0.25%	0-0.25%
1-month LIBOR	0.15%	0.16%	0.16%	0.16%	0.16%	0.18%	0.20%
2-month LIBOR	0.18%	0.19%	0.19%	0.20%	0.20%	0.24%	0.30%
3-month LIBOR	0.23%	0.23%	0.24%	0.24%	0.25%	0.28%	0.35%
6-month LIBOR	0.26%	0.26%	0.27%	0.27%	0.28%	0.32%	0.38%
12-month LIBOR	0.33%	0.34%	0.34%	0.35%	0.35%	0.40%	0.45%
1-year swap rate	0.22%	0.23%	0.23%	0.24%	0.25%	0.30%	0.35%
2-year swap rate	0.23%	0.24%	0.25%	0.26%	0.27%	0.32%	0.37%
3-year swap rate	0.27%	0.28%	0.29%	0.29%	0.30%	0.35%	0.40%
5-year swap rate	0.43%	0.44%	0.44%	0.45%	0.46%	0.50%	0.55%
10-year swap rate	0.85%	0.86%	0.87%	0.88%	0.89%	0.94%	0.99%
15-year swap rate	1.08%	1.09%	1.10%	1.11%	1.12%	1.17%	1.23%
20-year swap rate	1.20%	1.21%	1.22%	1.23%	1.24%	1.27%	1.30%
30-year swap rate	1.27%	1.27%	1.28%	1.29%	1.30%	1.34%	1.38%
SGD Interest Rates	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
1-month SIBOR	0.25%	0.26%	0.27%	0.27%	0.28%	0.30%	0.33%
1-month SOR	0.14%	0.14%	0.15%	0.15%	0.15%	0.18%	0.21%
3-month SIBOR	0.41%	0.41%	0.42%	0.43%	0.44%	0.47%	0.50%
3-month SOR	0.19%	0.19%	0.19%	0.20%	0.20%	0.23%	0.27%
6-month SIBOR	0.59%	0.60%	0.61%	0.61%	0.62%	0.65%	0.68%
6-month SOR	0.19%	0.19%	0.20%	0.20%	0.21%	0.25%	0.28%
12-month SIBOR	0.81%	0.82%	0.82%	0.83%	0.83%	0.85%	0.88%
1-year swap rate	0.18%	0.19%	0.20%	0.20%	0.21%	0.28%	0.32%
2-year swap rate	0.23%	0.24%	0.25%	0.26%	0.27%	0.32%	0.35%
3-year swap rate	0.30%	0.31%	0.32%	0.32%	0.33%	0.38%	0.41%
5-year swap rate	0.50%	0.51%	0.52%	0.54%	0.55%	0.59%	0.63%
10-year swap rate	0.86%	0.87%	0.88%	0.89%	0.90%	0.94%	0.98%
15-year swap rate	0.99%	1.00%	1.01%	1.01%	1.02%	1.05%	1.10%
20-year swap rate	1.02%	1.02%	1.03%	1.03%	1.04%	1.10%	1.14%
20-year swap rate	1.02%	1.03%	1.04%	1.05%	1.06%	1.13%	1.17%
MYR forecast	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
OPR	1.75%	1.50%	1.50%	1.50%	1.50%	1.50%	1.75%
1-month KLIBOR	1.85%	1.60%	1.61%	1.61%	1.62%	1.65%	1.85%
3-month KLIBOR	1.93%	1.68%	1.69%	1.69%	1.70%	1.75%	1.90%
6-month KLIBOR	2.07%	1.82%	1.83%	1.84%	1.85%	1.90%	2.05%
12-month KLIBOR	2.20%	1.95%	1.97%	1.98%	2.00%	2.05%	2.20%
1-year swap rate	1.95%	1.80%	1.81%	1.82%	1.83%	1.85%	1.98%
2-year swap rate	1.98%	1.82%	1.83%	1.84%	1.85%	1.88%	2.02%
3-year swap rate	2.10%	1.85%	1.86%	1.87%	1.88%	1.93%	2.06%
5-year swap rate	2.28%	2.08%	2.09%	2.09%	2.10%	2.13%	2.26%
10-year swap rate	2.69%	2.48%	2.49%	2.49%	2.50%	2.55%	2.65%
15-year swap rate	2.93%	2.75%	2.76%	2.77%	2.78%	2.83%	2.88%
20-year swap rate	3.08%	2.85%	2.86%	2.87%	2.88%	2.92%	3.00%

Rates Outlook

2 December 2020

UST bond yields	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year UST bond yield	0.14%	0.16%	0.17%	0.18%	0.19%	0.23%	0.27%
5-year UST bond yield	0.33%	0.35%	0.37%	0.38%	0.40%	0.42%	0.46%
10-year UST bond yield	0.77%	0.80%	0.83%	0.85%	0.88%	0.93%	0.96%
30-year UST bond yield	1.54%	1.56%	1.58%	1.61%	1.63%	1.68%	1.74%
SGS bond yields	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year SGS yield	0.28%	0.28%	0.29%	0.29%	0.30%	0.33%	0.36%
5-year SGS yield	0.49%	0.50%	0.51%	0.52%	0.53%	0.56%	0.60%
10-year SGS yield	0.88%	0.89%	0.90%	0.91%	0.92%	0.97%	1.04%
15-year SGS yield	1.13%	1.13%	1.14%	1.14%	1.15%	1.20%	1.29%
20-year SGS yield	1.18%	1.18%	1.19%	1.19%	1.20%	1.25%	1.32%
30-year SGS yield	1.14%	1.17%	1.20%	1.23%	1.26%	1.28%	1.36%
MGS forecast	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
3-year MSG yield	1.91%	1.72%	1.73%	1.74%	1.75%	1.79%	1.90%
5-year MGS yield	2.20%	1.99%	1.98%	1.96%	1.95%	2.00%	2.15%
10-year MGS yield	2.75%	2.50%	2.52%	2.53%	2.55%	2.59%	2.75%

FX	Spot	Dec-20	Mar-21	Jun-21	Sept-21	Dec-21
USD-JPY	104.27	103.89	103.73	103.48	103.02	102.56
EUR-USD	1.1976	1.2022	1.2089	1.2191	1.2244	1.2298
GBP-USD	1.3356	1.3273	1.3333	1.3557	1.3648	1.3738
AUD-USD	0.7352	0.7403	0.7542	0.7590	0.7595	0.7600
NZD-USD	0.7033	0.7078	0.7117	0.7138	0.7140	0.7142
USD-CAD	1.2971	1.2910	1.2859	1.2832	1.2830	1.2827
USD-CHF	0.9064	0.9029	0.9028	0.9049	0.9003	0.8957
USD-SGD	1.3408	1.3368	1.3291	1.3197	1.3196	1.3194
USD-CNY	6.5717	6.5381	6.4879	6.4441	6.4548	6.4655
USD-THB	30.26	30.14	30.12	30.14	29.76	29.3879
USD-IDR	14,130	13,939	13,789	13,841	13,716	13,592
USD-MYR	4.0792	4.0519	4.0237	4.0088	4.0077	4.0065
USD-KRW	1106.15	1100.70	1092.96	1084.98	1089.90	1094.82
USD-TWD	28.676	28.581	28.441	28.333	28.254	28.176
USD-HKD	7.7526	7.7550	7.7533	7.7500	7.7500	7.7500
USD-PHP	48.05	47.96	47.84	47.93	47.56	47.19
USD-INR	73.62	73.23	72.72	72.30	72.06	71.82
EUR-JPY	124.87	124.90	125.40	126.16	126.15	126.13
EUR-GBP	0.8967	0.9057	0.9067	0.8992	0.8972	0.8951
EUR-CHF	1.0855	1.0854	1.0914	1.1031	1.1023	1.1015
EUR-SGD	1.6057	1.6070	1.6068	1.6089	1.6157	1.6225
GBP-SGD	1.7908	1.7743	1.7722	1.7892	1.8009	1.8126
AUD-SGD	0.9858	0.9896	1.0024	1.0016	1.0022	1.0027
NZD-SGD	0.9430	0.9461	0.9459	0.9421	0.9422	0.9423
CHF-SGD	1.4793	1.4805	1.4722	1.4585	1.4657	1.4731
JPY-SGD	1.2860	1.2867	1.2813	1.2753	1.2808	1.2864
SGD-MYR	3.0436	3.0311	3.0273	3.0376	3.0371	3.0366
SGD-CNY	4.9010	4.8910	4.8813	4.8829	4.8916	4.9003

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