

Interest Rate Forecasts (June)

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Highlights

1. **The “sell in May and go away” seasonal effect did not really assert this year despite the Covid variants such as the B16.17 and the tightening of restriction measures in many countries combating the uptick in Covid cases.** Global equity and bond markets still saw monthly inflows of US\$73.7bn and US\$33.0bn respectively up to 26 May, bringing the year-to-date cumulative flows to a whopping US\$507bn and US\$224.7bn (or 2.7x and 0.6x of 2020 full-year flows), according to EPFR data. That said, volatility was more significant for cryptocurrency (due to the official warnings about usage and speculation) and the RMB complex (where PBOC followed up the verbal jawboning with a 2% point hike to its foreign currency reserve requirement ratio to 7% from 15 June, in its first such move since 2007 to dampen the appreciation bias). Holding up risk sentiments were the ample front-end liquidity and easing inflationary concerns. For now, the Fed’s downplaying of inflation as a temporary overshoot appears to have calmed markets despite the latest acceleration in its core PCE deflator to 3.1% (highest since 1992). On the growth front, the OECD also revised up its 2021 global growth forecast from 5.6% to 5.8%, with US and China leading the rebound, but warned of gapping differences between countries
2. **As we flagged last month, the breaking of ranks among central banks have begun, starting with the Bank of Canada and followed by the Reserve Bank of New Zealand who hinted it may hike rates from late 2022.** Even FOMC members are starting to consider discussing the possibility of taper in coming meetings. As such, the June FOMC and also Fed chair Powell’s speech at the Jackson Hole conference may be two milestones to watch. In addition, the Bank of England may be the other key one to watch for 2022 intentions. This contrasts with many Asian central banks where the domestic economies are currently battling the Covid resurgence and tightening lockdown measures that will dampen growth in the near-term. On the fiscal front, the difference is also quite stark - the Biden administration is also proposing a US\$6 trillion budget proposal to “reimagine” the US economy that may drive record debt in the coming decade, but may get Congressional approval first. Singapore and Malaysia have also recently announced an additional S\$800mn and MYR40bn stimulus package respectively to support affected businesses and workers.
3. **Market is adjusting to FOMC hints that they may consider discussing a taper to its asset purchase program in coming meeting, yet taking comfort that the central bank will look past any temporary inflation overshoot and give lots of advance warning to any policy recalibrations.** Meanwhile, front-end liquidity has stayed flush. Liquidity from Fed purchases and bill reduction is parked at the zero-interest paying reverse repo, which shall not be an ideal situation from the policy perspective. This may add to the prospects for a reassessment of the asset purchase program. As and when a resolution on the debt ceiling is agreed on, the pressure on the reduction in Treasury’s cash balance may be alleviated. Our base case remains a taper may only come towards the end of 2021 or early 2022 and any rate hikes will be later, likely 2023. But the BOC, RBNZ and potentially even the BOE may pave the way to unwinding some of their respective monetary policy accommodation.

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4. In Asia, SGD SOR and front-end SGD IRS eased amid supportive domestic liquidity. However, as USD liquidity stays flush, the momentum for **SGD-USD rates spreads** to narrow is only mild. **10Y SGS** yield has dipped below 10Y UST yield as expected; this situation shall be sustained with a prudent fiscal position. Latest SGS auctions were well received reflecting decent demand. **IndoGB** have found a firmer footing in the past couple of weeks, with muted movement in USD/IDR largely supporting sentiment. Recent IndoGB auctions suggest a comeback of demand. The 10Y IndoGB yield is likely to trade in a range of 6.37-6.55% on a multi-week horizon. The **MGS** curve has steepened in the past month in line with our view. The steepening move does not appear to have run its course yet. Front-end MYR rates shall be better anchored upon the accommodative policy stance, while investors may be cautious towards duration amid risk of higher fiscal spending. **CGBs** have fared well in the past month, as supply came in on the light side again, while real yield differentials have stayed favourable. Still, going long CGBs shall be a strategy going for coupon rather than capital gain in a rising rates environment. **USD/CNY swap points** softened as CNY liquidity was supportive, while the latest hike in the reserve ratio on foreign currency deposit mitigate the flush USD liquidity situation. That said, a strong external balance, absence of PBoC sterilization, and the recent relaxation on offshore borrowing may bring in further inflows. We do not chase the swap points lower.

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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%	0.50-0.75%
1-month LIBOR	0.10%	0.13%	0.13%	0.16%	0.20%
2-month LIBOR	0.13%	0.16%	0.18%	0.24%	0.30%
3-month LIBOR	0.19%	0.24%	0.28%	0.30%	0.40%
6-month LIBOR	0.24%	0.28%	0.30%	0.33%	0.45%
12-month LIBOR	0.30%	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	1.77%	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	0.22%	0.30%	0.35%	0.36%	0.40%
3-month SIBOR	0.44%	0.44%	0.44%	0.47%	0.55%
3-month SOR	0.26%	0.34%	0.37%	0.38%	0.43%
6-month SIBOR	0.59%	0.59%	0.59%	0.63%	0.67%
6-month SOR	0.30%	0.34%	0.38%	0.40%	0.45%
1-year swap rate	0.33%	0.38%	0.39%	0.41%	0.45%
2-year swap rate	0.45%	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	1.10%	1.19%	1.22%	1.24%	1.28%
10-year swap rate	1.67%	1.82%	1.95%	2.05%	2.15%
15-year swap rate	1.85%	1.99%	2.12%	2.22%	2.32%
20-year swap rate	1.86%	2.00%	2.13%	2.23%	2.32%
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	2.43%	2.55%	2.60%	2.65%	2.72%
5-year swap rate	2.75%	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	1.75%	1.85%	2.00%	2.10%	2.20%
30-year UST bond yield	2.45%	2.55%	2.60%	2.65%	2.70%
SGS bond yields	2Q21	3Q21	4Q21	2022	2023
2-year SGS yield	0.43%	0.52%	0.59%	0.65%	0.75%
5-year SGS yield	0.90%	0.94%	1.02%	1.18%	1.28%
10-year SGS yield	1.57%	1.67%	1.80%	1.95%	2.08%
15-year SGS yield	1.93%	2.03%	2.15%	2.22%	2.27%
20-year SGS yield	1.96%	2.06%	2.18%	2.32%	2.37%
30-year SGS yield	2.00%	2.10%	2.20%	2.34%	2.39%
MGS forecast	2Q21	3Q21	4Q21	2022	2023
3-year MGS yield	2.35%	2.40%	2.45%	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	Jun-21	Sep-21	Dec-21	Mar-22
USD-JPY	109.45	110.03	110.60	111.10	111.63
EUR-USD	1.2228	1.2324	1.2322	1.2354	1.2380
GBP-USD	1.4229	1.4356	1.4351	1.4400	1.4425
AUD-USD	0.7742	0.7699	0.7837	0.7880	0.7905
NZD-USD	0.7276	0.7360	0.7402	0.7393	0.7412
USD-CAD	1.2053	1.2004	1.1948	1.1932	1.2005
USD-CHF	0.8988	0.8916	0.8917	0.8896	0.8876
USD-SGD	1.3196	1.3165	1.3128	1.3070	1.2976
USD-CNY	6.3712	6.3549	6.3328	6.3137	6.3012
USD-THB	31.17	31.37	31.53	31.35	31.01
USD-IDR	14,280	14,219	14,191	14,329	14,474
USD-MYR	4.1255	4.1358	4.1018	4.0814	4.0512
USD-KRW	1106.0	1101.8	1091.5	1092.2	1089.8
USD-TWD	27.624	27.570	27.505	27.446	27.381
USD-HKD	7.7592	7.7600	7.7617	7.7542	7.7517
USD-PHP	47.73	47.58	47.55	47.45	47.35
USD-INR	72.75	72.39	72.39	72.06	71.49
EUR-JPY	133.85	135.60	136.28	137.09	137.50
EUR-GBP	0.8594	0.8584	0.8586	0.8579	0.8582
EUR-CHF	1.0992	1.0988	1.0987	1.0990	1.0989
EUR-SGD	1.6137	1.6224	1.6176	1.6147	1.6064
GBP-SGD	1.8777	1.8899	1.8840	1.8821	1.8718
AUD-SGD	1.0216	1.0135	1.0288	1.0299	1.0257
NZD-SGD	0.9601	0.9689	0.9718	0.9662	0.9618
CHF-SGD	1.4681	1.4765	1.4723	1.4692	1.4619
JPY-SGD	1.2055	1.1964	1.1870	1.1779	1.1683
SGD-MYR	3.1263	3.1416	3.1244	3.1228	3.1220
SGD-CNY	4.8281	4.8272	4.8238	4.8308	4.8560

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