

Interest Rate Forecasts (March)

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Highlights

1. **Repricing of global bond markets gained traction in February, as the reflation theme takes flight.** With the accelerated global roll-out of vaccinations, rising commodity prices and some progress in advancing US president Biden's US\$1.9tn fiscal stimulus plan through Congress, the global growth recovery is gaining some momentum. Adding fuel to the fire were the central banks' reticence to add to more monetary policy easing beyond verbal jawboning about the recent uptick in longer-tenor sovereign bond yields. **Expect more market volatility amid more tests on the resolve of policymakers to translate their dovish inertia (apart from verbal jawboning) into action**, apart from the RBA who has been trying to defend its yield curve control at the 3-year yield target by continuously adding to its bond purchases.
2. **Reflation rather than runaway inflation:** To put things into context, the 10-year UST bond yield has broken out of its earlier 1.0-1.3% range and has probably shifted to a new trading range of 1.3-1.6% in the near-term, but is essentially recovering the lost ground seen in the 50bps nose-dive seen in February 2020 with the onset of the Covid pandemic. Similarly, crude oil prices have reset to their February 2020 range of \$60+ per barrel for WTI and Brent. This upmove is recouping the Covid-inflicted write off for the past 12 months and should be interpreted as "normalisation" rather than a genuine fear of growth overheating and bringing forward potential rate hikes. While this could contribute to the unwinding of the risk-on "let's buy everything in sight" mindset, nevertheless, this is unlikely to be the end of the risk rally even if a correction is due. This is because central bankers remain a cautious lot and is unwilling to risk a premature withdrawal of easy monetary policy in the next 3-6 months. Moreover, on the fiscal front, the recent Singapore and Hong Kong budgets reflected the need to continue to run a second year of budget deficits to support the uneven domestic recovery.
3. **China's holiday consumption remained resilient despite the significant decline of travel.** The combination of strong growth and weak credit expansion, which are likely to be distorted by base effect in the first quarter, may raise false alarm about pre-maturing tightening. Nevertheless, we think PBoC is fully aware of this "base effect illusion". We expect no U-turn of macro policy in the first half of 2021. Capital inflows into China remained strong in the beginning of 2021. However, in contrast to previous observation pre-2015 that capital inflow was the key source of base money creation in China, we think capital inflows this time may be bad for RMB liquidity given PBoC's reluctance to expand its balance sheet. Given PBoC's departure from regular intervention in the FX market, commercial banks may play a bigger role in absorbing the excessive dollar liquidity. This may lead to decline of excessive reserve should PBoC be less generous in open market operation.
4. **In the space of a month, Brent went from \$55 to \$65/bbl.** Prices traded as high as \$66.82/bbl in late Feb, but ultimately caved as 10Y Treasury yields breached above 1.50%. A further rise in Treasury yields will likely add further selling pressure across the commodity complex, but that should not derail the broader super-cycle that most commodities are currently embarking on.

Rates Outlook

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USD Interest Rates	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%
1-month LIBOR	0.12%	0.13%	0.13%	0.13%	0.16%	0.20%
2-month LIBOR	0.16%	0.17%	0.17%	0.18%	0.24%	0.30%
3-month LIBOR	0.22%	0.23%	0.27%	0.28%	0.30%	0.40%
6-month LIBOR	0.23%	0.24%	0.28%	0.30%	0.33%	0.45%
12-month LIBOR	0.31%	0.32%	0.36%	0.38%	0.42%	0.54%
1-year swap rate	0.20%	0.22%	0.24%	0.26%	0.32%	0.45%
2-year swap rate	0.24%	0.26%	0.29%	0.32%	0.43%	0.53%
3-year swap rate	0.40%	0.42%	0.44%	0.46%	0.53%	0.57%
5-year swap rate	0.84%	0.88%	0.93%	0.98%	1.17%	1.33%
10-year swap rate	1.53%	1.55%	1.57%	1.59%	1.68%	1.78%
15-year swap rate	1.80%	1.83%	1.86%	1.90%	1.98%	2.05%
20-year swap rate	1.88%	1.90%	1.93%	1.98%	2.05%	2.15%
30-year swap rate	1.94%	1.96%	1.98%	2.00%	2.06%	2.17%
SGD Interest Rates	1Q21	2Q21	3Q21	4Q21	2022	2023
1-month SIBOR	0.28%	0.28%	0.29%	0.29%	0.3%	0.37%
1-month SOR	0.26%	0.27%	0.28%	0.28%	0.29%	0.39%
3-month SIBOR	0.44%	0.44%	0.44%	0.44%	0.47%	0.55%
3-month SOR	0.30%	0.30%	0.31%	0.31%	0.31%	0.43%
6-month SIBOR	0.59%	0.59%	0.59%	0.59%	0.63%	0.67%
6-month SOR	0.28%	0.30%	0.32%	0.33%	0.38%	0.45%
1-year swap rate	0.36%	0.36%	0.37%	0.37%	0.37%	0.45%
2-year swap rate	0.42%	0.47%	0.50%	0.51%	0.60%	0.70%
3-year swap rate	0.61%	0.63%	0.65%	0.67%	0.76%	0.86%
5-year swap rate	0.99%	1.02%	1.04%	1.06%	1.15%	1.27%
10-year swap rate	1.55%	1.59%	1.61%	1.61%	1.67%	1.70%
15-year swap rate	1.75%	1.78%	1.78%	1.79%	1.85%	1.88%
20-year swap rate	1.82%	1.85%	1.87%	1.90%	1.92%	1.95%
20-year swap rate	1.82%	1.85%	1.87%	1.91%	1.93%	1.98%
MYR forecast	1Q21	2Q21	3Q21	4Q21	2022	2023
OPR	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
1-month KLIBOR	1.86%	1.87%	1.87%	1.87%	1.90%	2.05%
3-month KLIBOR	1.94%	1.95%	1.95%	1.95%	2.00%	2.15%
6-month KLIBOR	2.06%	2.07%	2.07%	2.07%	2.10%	2.25%
12-month KLIBOR	2.20%	2.21%	2.22%	2.23%	2.25%	2.40%
1-year swap rate	1.96%	1.98%	2.00%	2.05%	2.10%	2.25%
2-year swap rate	2.09%	2.11%	2.13%	2.15%	2.20%	2.35%
3-year swap rate	2.26%	2.28%	2.30%	2.32%	2.37%	2.46%
5-year swap rate	2.54%	2.58%	2.64%	2.69%	2.78%	2.85%
10-year swap rate	3.15%	3.18%	3.20%	3.22%	3.29%	3.35%
15-year swap rate	3.29%	3.30%	3.31%	3.31%	3.33%	3.40%
20-year swap rate	3.45%	3.47%	3.49%	3.52%	3.56%	3.61%

Rates Outlook

2 March 2021

UST bond yields	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year UST bond yield	0.14%	0.16%	0.18%	0.25%	0.40%	0.65%
5-year UST bond yield	0.75%	0.80%	0.85%	0.90%	1.20%	1.35%
10-year UST bond yield	1.45%	1.50%	1.55%	1.60%	1.68%	1.75%
30-year UST bond yield	2.18%	2.20%	2.22%	2.25%	2.30%	2.40%
SGS bond yields	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year SGS yield	0.39%	0.41%	0.43%	0.45%	0.55%	0.65%
5-year SGS yield	0.68%	0.70%	0.72%	0.77%	0.82%	0.98%
10-year SGS yield	1.33%	1.36%	1.40%	1.45%	1.54%	1.58%
15-year SGS yield	1.65%	1.67%	1.69%	1.71%	1.80%	1.90%
20-year SGS yield	1.70%	1.73%	1.76%	1.80%	1.87%	1.98%
30-year SGS yield	1.80%	1.82%	1.85%	1.87%	1.92%	2.06%
MGS forecast	1Q21	2Q21	3Q21	4Q21	2022	2023
3-year MGS yield	1.98%	2.00%	2.01%	2.02%	2.05%	2.10%
5-year MGS yield	2.37%	2.40%	2.45%	2.48%	2.50%	2.52%
10-year MGS yield	3.08%	3.12%	3.18%	3.20%	3.25%	3.29%

FX	Spot	Mar-21	Jun-21	Sep-21	Dec-21
USD-JPY	106.54	107.32	107.65	108.00	108.58
EUR-USD	1.2087	1.2137	1.2049	1.1945	1.1862
GBP-USD	1.3984	1.4206	1.4066	1.4016	1.4112
AUD-USD	0.7755	0.7849	0.7710	0.7696	0.7923
NZD-USD	0.7275	0.7355	0.7236	0.7222	0.7412
USD-CAD	1.2699	1.2587	1.2770	1.2639	1.2460
USD-CHF	0.9084	0.9122	0.9018	0.8997	0.8981
USD-SGD	1.3294	1.3226	1.3246	1.3228	1.3031
USD-CNY	6.4633	6.4799	6.4414	6.4317	6.3369
USD-THB	30.27	30.39	30.08	30.41	29.86
USD-IDR	14,288	14,393	14,062	13,960	13,792
USD-MYR	4.0525	4.0646	4.0233	3.9988	3.9524
USD-KRW	1123.40	1128.46	1106.76	1104.36	1088.37
USD-TWD	28.091	27.993	27.911	27.868	27.677
USD-HKD	7.7575	7.7500	7.7533	7.7583	7.7533
USD-PHP	48.64	48.73	48.63	48.70	48.16
USD-INR	73.27	73.47	73.21	73.47	72.28
EUR-JPY	128.78	130.26	129.71	129.01	128.79
EUR-GBP	0.8643	0.8543	0.8566	0.8523	0.8406
EUR-CHF	1.0979	1.1071	1.0866	1.0747	1.0652
EUR-SGD	1.6068	1.6052	1.5960	1.5802	1.5457
GBP-SGD	1.8590	1.8789	1.8631	1.8541	1.8389
AUD-SGD	1.0310	1.0381	1.0213	1.0181	1.0325
NZD-SGD	0.9672	0.9728	0.9585	0.9553	0.9658
CHF-SGD	1.4636	1.4499	1.4688	1.4704	1.4510
JPY-SGD	1.2477	1.2323	1.2304	1.2248	1.2001
SGD-MYR	3.0483	3.0733	3.0375	3.0229	3.0331
SGD-CNY	4.8617	4.8994	4.8630	4.8621	4.8630

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