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## Interest Rate Forecasts (Sep)

1. **September blues?** August proved a challenging month for US equities but if history is any guide, the seasonal pattern for September is not encouraging. That said, financial markets have settled into leaning towards a soft landing for the US economy and the latest nonfarm payrolls and unemployment report may give room for the Fed to pause again in September. Most of the major central banks are nearing the peak of their rate tightening cycle, even though the ECB is telegraphing another 25bps hike at the upcoming 14 September meeting given persistent inflation.
2. **Although weighed down by economic challenges in China, Asian economies have been focusing on alternative sources of growth.** Some Asian manufacturing PMIs improved in August – Indonesia (53.9 from 53.3), China’s Caixin (51.0 highest since February versus 49.2), India (58.6 versus 57.7) - but the majority remained in contractionary territory including S’pore (49.9 versus 49.8), Malaysia (47.8 unchanged), and South Korea (48.9 versus 49.4), Thailand (48.9 versus 50.7) and Philippines (49.7 versus 51.9) actually deteriorated. As such, the question remains if the resilient labour market and private consumption, coupled with the return of more tourists, will provide sufficient offset to the drag from manufacturing/electronics ahead. Asian central banks are unlikely to rush into rate cuts but may increasingly flag the downside growth risks and subsiding inflationary pressures from here, thus opening the door to a potential policy pivot.
3. **Flash estimates\* indicate that the OCBC SME Index contracted at 47.2 in August, a dip from July’s 51.2.** While the August 2022 reading was high at 53.5, the narrowing of the 2023 official GDP growth forecast range to 0.5% to 1.5% due to sluggish external demand suggests that the near-term outlook remains uncertain. As inflation continues to weigh, SMEs are looking ahead to improving tourism numbers and consumer demand to support domestic sectors and retail sales.
4. **SGD rates** mostly followed USD rates movements in August, leaving SGD-USD rates spreads little changed. On the SGD OIS curve itself, the 2Y and 3Y rates have remained relatively low, which may attract some residue hedging demand. Our medium-term view is for SGD-USD rates spreads to become less negative; the trigger for this expected move in spreads will be USD rates starting to ease, and if it is coupled with MAS easing then the move in SGD-USD rates spreads will be quicker. **IndoGBs** curve bearish flattened over the past month as 2-5Y bonds underperformed. Bank Indonesia introduced SRBI to replace reverse repos. The fate of operation twist is ambiguous; assuming absence of operation twist in the interim, then the IndoGB curve is likely to stay flat. Q3 gross IndoGB issuance is likely to add up to below IDR112trn, vs initial target of IDR141trn. August saw outflows from IndoGBs amounting to IDR8.9trn. **MGS** have been relatively stable in the face of the volatilities in USD rates, in line with our expectations. The 3Y MGS yield shall stay anchored by the monetary policy outlook. Benchmark 3M KLIBOR has crept higher suggesting some liquidity tightness; this is also reflected in some RHS demand on FX swaps towards month-end. Otherwise, banks’ liquidity and funding positions stayed stable in July, with outstanding Ringgit liquidity placed with BNM virtually unchanged, at MYR142bn vs MYR141bn in June; within which money market borrowings fell further to MYR73bn, in line with the policy to focus on interbank bills in OMOs.

\*Using data until 21<sup>st</sup> August

## Rates Outlook

12 September 2023

### FX/Rates Forecast

USD Interest Rates	1-Sep-2023	3Q23	4Q23	1Q24	2Q24
FFTR upper	5.50	5.50	5.50	5.25	4.75
SOFR	5.31	5.30	5.30	5.05	4.55
3M SOFR OIS	5.39	5.50	5.50	5.20	4.70
6M SOFR OIS	5.43	5.55	5.45	5.15	4.65
1Y SOFR OIS	5.35	5.35	5.25	4.95	4.35
2Y SOFR OIS	4.77	4.70	4.60	4.50	3.90
5Y SOFR OIS	4.07	4.00	3.95	3.95	3.50
10Y SOFR OIS	3.89	3.75	3.70	3.70	3.30
15Y SOFR OIS	3.88	3.74	3.70	3.70	3.35
20Y SOFR OIS	3.83	3.69	3.65	3.65	3.30
30Y SOFR OIS	3.62	3.49	3.45	3.55	3.20
SGD Interest Rates	1-Sep-2023	3Q23	4Q23	1Q24	2Q24
SORA	3.78	3.80	3.80	3.75	3.65
1M SIBOR	4.03	4.10	4.10	4.05	3.60
3M SIBOR	4.06	4.15	4.15	4.10	3.70
3M SGD OIS	3.64	3.75	3.75	3.40	3.40
6M SGD OIS	3.61	3.70	3.70	3.50	3.50
1Y SGD OIS	3.56	3.65	3.65	3.50	3.25
2Y SGD OIS	3.35	3.40	3.40	3.35	3.05
3Y SGD OIS	3.23	3.30	3.30	3.28	3.05
5Y SGD OIS	3.19	3.20	3.20	3.20	3.05
10Y SGD OIS	3.18	3.15	3.15	3.15	3.00
15Y SGD OIS	3.13	3.13	3.13	3.10	3.10
20Y SGD OIS	3.02	3.11	3.11	3.08	3.08
MYR Interest Rates	1-Sep-2023	3Q23	4Q23	1Q24	2Q24
OPR	3.00	3.00	3.00	3.00	3.00
1M MYR KLIBOR	3.27	3.20	3.20	3.15	3.15
3M MYR KLIBOR	3.52	3.50	3.45	3.45	3.45
6M MYR KLIBOR	3.61	3.55	3.55	3.55	3.50
12M MYR KLIBOR	3.79	3.75	3.75	3.70	3.60
1Y MYR IRS	3.60	3.50	3.45	3.40	3.40
2Y MYR IRS	3.60	3.60	3.55	3.45	3.45
3Y MYR IRS	3.62	3.60	3.55	3.50	3.50
5Y MYR IRS	3.71	3.65	3.65	3.65	3.65
10Y MYR IRS	3.94	3.95	4.00	4.00	4.00
15Y MYR IRS	4.14	4.20	4.25	4.25	4.25
20Y MYR IRS	4.30	4.25	4.30	4.30	4.30
HKD Interest Rates	1-Sep-2023	3Q23	4Q23	1Q24	2Q24
1M HKD HIBOR	3.69	4.85	4.85	4.65	4.20
3M HKD HIBOR	4.44	5.00	5.00	4.80	4.35
2Y HKD IRS	4.50	4.50	4.40	4.00	3.60
5Y HKD IRS	4.13	4.00	3.95	3.80	3.65
10Y HKD IRS	4.06	3.90	3.90	3.70	3.70

## Rates Outlook

12 September 2023

UST yields	1-Sep-2023	Q323	Q423	Q124	Q224
2Y UST	4.88	4.65	4.55	4.35	3.80
5Y UST	4.30	4.10	4.00	3.90	3.70
10Y UST	4.18	4.00	3.90	3.75	3.50
30Y UST	4.29	4.10	4.05	3.85	3.75
SGS yields	1-Sep-2023	Q323	Q423	Q124	Q224
2Y SGS	3.48	3.35	3.30	2.85	2.70
5Y SGS	3.10	3.05	3.00	2.90	2.75
10Y SGS	3.13	3.05	3.00	3.00	2.90
15Y SGS	3.12	3.00	2.90	2.90	2.85
20Y SGS	3.10	2.95	2.85	2.80	2.75
30Y SGS	3.05	2.90	2.80	2.60	2.60
MGS yields	1-Sep-2023	Q323	Q423	Q124	Q224
3Y MGS	3.46	3.40	3.40	3.30	3.30
5Y MGS	3.59	3.60	3.60	3.60	3.60
10Y MGS	3.84	3.90	3.95	3.95	3.95
IndoGB yields	1-Sep-2023	3Q23	4Q23	1Q24	2Q24
2Y IndoGB	6.16	6.15	6.15	5.50	5.50
5Y IndoGB	6.13	6.10	6.00	5.80	5.70
10Y IndoGB	6.37	6.35	6.35	6.30	6.30

Source: OCBC Research (Latest Forecast Update: 4<sup>th</sup> September 2023)

FX	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24
USD-JPY	144.00	141.00	137.00	136.00	135.00
EUR-USD	1.0900	1.1000	1.1040	1.1100	1.1200
GBP-USD	1.2600	1.2700	1.2800	1.2800	1.2800
AUD-USD	0.6550	0.6650	0.6800	0.6900	0.7000
NZD-USD	0.6000	0.6100	0.6200	0.6200	0.6300
USD-CAD	1.3400	1.3200	1.3100	1.3000	1.2800
USD-CHF	0.8900	0.8900	0.8900	0.8900	0.8800
USD-SEK	10.5000	10.3500	10.1000	9.9000	9.8000
DXY	103.01	101.88	101.00	100.43	99.59
USD-SGD	1.3500	1.3360	1.3320	1.3300	1.3280
USD-CNY	7.1800	7.1100	7.0500	7.0000	6.9500
USD-CNH	7.2000	7.1200	7.0500	7.0000	6.9500
USD-THB	34.800	34.600	34.400	34.400	34.200
USD-IDR	15350	15100	14850	14820	14800
USD-MYR	4.6200	4.5800	4.5400	4.5000	4.5000
USD-KRW	1295.0	1275.0	1265.0	1260.0	1255.0
USD-TWD	32.000	31.700	31.500	31.500	31.300
USD-HKD	7.8400	7.8200	7.8100	7.8000	7.8000
USD-PHP	56.600	56.200	55.900	55.600	55.200
USD-INR	82.500	82.000	82.000	81.800	81.500
USD-VND	24000	23600	23400	23400	23300
EUR-JPY	156.96	155.10	151.25	150.96	151.20
EUR-GBP	0.8651	0.8661	0.8625	0.8672	0.8750
EUR-CHF	0.9701	0.9790	0.9826	0.9879	0.9856
EUR-SGD	1.4715	1.4696	1.4705	1.4763	1.4874
GBP-SGD	1.7010	1.6967	1.7050	1.7024	1.6998
AUD-SGD	0.8843	0.8884	0.9058	0.9177	0.9296

## Rates Outlook

12 September 2023

<b>NZD-SGD</b>	0.8100	0.8150	0.8258	0.8246	0.8366
<b>CHF-SGD</b>	1.5169	1.5011	1.4966	1.4944	1.5091
<b>JPY-SGD</b>	0.9375	0.9475	0.9723	0.9779	0.9837
<b>SGD-MYR</b>	3.4222	3.4281	3.4084	3.3835	3.3886
<b>SGD-CNY</b>	5.3185	5.3219	5.2928	5.2632	5.2334
<b>SGD-IDR</b>	11370	11302	11149	11143	11145
<b>SGD-THB</b>	25.778	25.898	25.826	25.865	25.753
<b>SGD-PHP</b>	41.926	42.066	41.967	41.805	41.566
<b>SGD-CNH</b>	5.3333	5.3293	5.2928	5.2632	5.2334
<b>SGD-TWD</b>	23.704	23.728	23.649	23.684	23.569
<b>SGD-KRW</b>	959.26	954.34	949.70	947.37	945.03
<b>SGD-HKD</b>	5.8074	5.8533	5.8634	5.8647	5.8735
<b>SGD-JPY</b>	106.67	105.54	102.85	102.26	101.66
<b>Gold \$/oz</b>	1920.0	1955.0	1980.0	2000.0	2020.0

Source: OCBC Research (Latest Forecast Update: 28<sup>th</sup> August 2023)

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