

Rates Outlook

5 June 2023

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Interest Rate Forecasts (June)

- 1. As the uncertainty around the US debt ceiling subsidies, markets have re-priced expectations for another near-term interest rate hike by the US Federal Reserve.** Following a tentative deal between the Republicans and the White House, and approval by the House of Representatives, it now goes to the Senate. However, market attention is now turning to the likely upcoming flurry of Treasury issuance (possibly exceeding US\$1 trillion in the coming 3-6 months) to rebuild the Treasury General Account when the deal clears Senate as well. The question then is whether this would significantly tighten liquidity conditions but would essentially boil down to whether the T-bill buyers like money-market funds would simply rotate from the Fed's Reserve Repurchase Facility. One silver lining is that Fed's Jefferson and Harker have signalled a potential "skip" to rate hikes at the June FOMC, notwithstanding the solid US economic data from the upward revision to Q1 GDP growth, strong labour market data and sticky core inflation pressures.
- 2. The global growth picture remains uneven.** While the economic momentum in the US seems to be holding up, growth in EU is slowing perceptibly. Germany, the biggest economy in the bloc, slipped into a technical recession in 1Q23 GDP as the economy contracted 0.3% QoQ on a seasonally adjusted basis, following a contraction of 0.5% in Q4 '22. Similarly in Asia, Taiwan shrank 2.87% YoY while Singapore and Indonesia contracted 0.4% QoQ sa and 0.92% QoQ respectively in 1Q23.
- 3. China's key growth indicators for April fell also short of expectations as the mobility-driven recovery may have peaked.** Weak external demand and a sluggish recovery in the property market pose significant challenges for China's near-term recovery. Hence, calls for easing monetary policy have intensified although PBoC kept its main policy rates unchanged. The recent downgrading of China's recovery outlook has exerted downward pressure on both RMB and RMB assets. We anticipate a near-term weakness in RMB due to two main factors. First, the carry trade is likely to persist, which could further suppress the RMB in the short run. Second, an upcoming dividend payout for companies listed in Hong Kong could place additional pressure on the RMB. On a more positive note, high-level dialogues between China and the US resumed in May. For example, China's top diplomat, Wang Yi, a member of the Politburo of the CPC Central Committee, met with US National Security Advisor, Jake Sullivan for more than 10 hours. These recent events reinforce our belief that a boundary exists in the US-China rivalry.
- 4. Flash estimates* indicate that the OCBC SME Index is forecast to be at 50.8 in May 2023,** turning expansionary after two months of contraction. A moderation in energy prices may have provided some growth support, but the operating environment remains cautious amidst a backdrop of tight financial conditions and weakness in the global electronics industry.

**Using data until 21st May*

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5. Oil prices await further direction from OPEC meeting on 4th June. Prices fell to an average of US\$71.57/bbl and US\$75.45/bbl for WTI and Brent respectively from April's average of US\$79.50/bbl and US\$83.46/bbl but were temporarily lifted by a tentative agreement on the US debt ceiling and that has helped assuage fears of a US default, as well as a stronger-than-expected draw-down in US inventories.
6. **SGD rates** underperformed USD rates in early May but reverted to outperformance thereafter; SGD-USD rate spreads have become more negative over the past month, against our medium-term view for the spreads to turn less negative. While the tendency was for SGD rates to outperform USD rates on an uptrend, SGD-USD rate differentials look overly negative. On levels, we expect SGD OIS to rise mildly from here, and stay mostly stable through Q3, before easing towards year-end and more so in 2024.

IndoGBs outperformed USTs substantially in May as the sell-off in USTs did not spill over onto the domestic bonds. MoF issued at below indicative amounts at the recent sukuk and conventional bond auctions, as there was no funding pressure. According to Finance Minister, budget surplus stood at IDR234.7trn as of end April; net bond issuance amounted to IDR240trn, 35% of full year target. IndoGB-UST yield differentials have been further compressed especially at the front-end; chasing the yields lower is not preferred, and any foreign inflows may be concentrated at longer tenors.

MGS have been resilient outperforming USTs in the past month. We expect 3Y MGS to trade around current level in a range of 3.35-3.45% as the yield spread with OPR looks fair. We have an upward bias to 5Y and 10Y MGS yields on resilient economic growth and compressed yield spreads over US yields. 3M KLIBOR have been grinding lower, despite the latest OPR hike; the move is in line with our expectation for some normalization in the 3M KLIBOR-OPR spread while liquidity appears supportive. We have pencilled in a level of 3.40% for 3M KLIBOR, but the move may be very slow from here.

CNY rates. Repo-IRS have been on a downtrend since late April, as data mostly printed on the soft/weak side. Although LPR and MLF rate have been kept unchanged, expectation is for an accommodative monetary policy. Our medium-term higher CNY rate view did not pan out as economic recovery has not come as strong; we have turned neutral CNY rates near term.

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FX/Rates Forecast

USD Interest Rates	Current*	Q223	Q323	Q423	Q124
FFTR upper	5.25	5.25	5.25	5.25	4.75
SOFR	5.06	5.05	5.05	5.05	4.55
3M SOFR OIS	5.28	5.25	5.25	5.25	4.75
6M SOFR OIS	5.30	5.35	5.35	5.20	4.70
1Y SOFR OIS	5.10	5.05	5.05	4.85	4.15
2Y SOFR OIS	4.36	4.35	4.35	4.20	3.70
5Y SOFR OIS	3.59	3.65	3.65	3.60	3.30
10Y SOFR OIS	3.42	3.45	3.45	3.40	3.30
15Y SOFR OIS	3.42	3.45	3.45	3.40	3.35
20Y SOFR OIS	3.38	3.40	3.40	3.35	3.30
30Y SOFR OIS	3.19	3.20	3.20	3.15	3.20
SGD Interest Rates	Current*	Q223	Q323	Q423	Q124
SORA	3.95	3.85	3.85	3.85	3.55
1M SIBOR	3.95	4.00	4.15	4.25	3.85
3M SIBOR	4.09	4.15	4.25	4.35	3.85
3M SGD OIS	3.65	3.70	3.75	3.75	3.40
6M SGD OIS	3.59	3.65	3.70	3.70	3.50
1Y SGD OIS	3.50	3.55	3.60	3.60	3.24
2Y SGD OIS	3.24	3.30	3.40	3.35	3.00
3Y SGD OIS	3.09	3.20	3.28	3.25	3.05
5Y SGD OIS	2.97	3.10	3.15	3.15	3.10
10Y SGD OIS	2.94	3.00	3.05	3.10	3.20
15Y SGD OIS	2.89	2.98	3.03	3.08	3.18
20Y SGD OIS	2.80	2.96	3.01	3.06	3.16
MYR Interest Rates	Current*	Q223	Q323	Q423	Q124
OPR	3.00	3.00	3.00	3.00	3.00
1M MYR KLIBOR	3.19	3.15	3.15	3.15	3.15
3M MYR KLIBOR	3.46	3.45	3.40	3.40	3.40
6M MYR KLIBOR	3.57	3.55	3.55	3.55	3.55
12M MYR KLIBOR	3.79	3.75	3.75	3.70	3.60
1Y MYR IRS	3.49	3.45	3.45	3.45	3.35
2Y MYR IRS	3.47	3.45	3.45	3.45	3.35
3Y MYR IRS	3.46	3.50	3.50	3.50	3.45
5Y MYR IRS	3.50	3.60	3.60	3.60	3.55
10Y MYR IRS	3.75	3.80	3.90	4.00	3.95
15Y MYR IRS	3.94	4.10	4.20	4.30	4.25
20Y MYR IRS	4.00	4.15	4.25	4.35	4.30
HKD Interest Rates	Current*	Q223	Q323	Q423	Q124
1M HKD HIBOR	4.51	4.60	4.60	4.60	4.20
3M HKD HIBOR	4.77	4.80	4.80	4.80	4.40
2Y HKD IRS	4.20	4.00	4.00	3.85	3.60
5Y HKD IRS	3.79	3.75	3.75	3.75	3.65
10Y HKD IRS	3.67	3.70	3.70	3.70	3.70

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UST yields	Current*	Q223	Q323	Q423	Q124
2Y UST	4.44	4.30	4.30	4.20	3.70
5Y UST	3.80	3.70	3.70	3.60	3.40
10Y UST	3.68	3.65	3.65	3.65	3.55
30Y UST	3.88	3.85	3.85	3.85	3.75
SGS yields	Current*	Q223	Q323	Q423	Q124
2Y SGS	3.25	3.20	3.20	3.05	2.75
5Y SGS	2.86	2.90	2.90	2.90	2.80
10Y SGS	2.82	2.90	2.90	2.90	3.00
15Y SGS	2.63	2.72	2.75	2.75	2.85
20Y SGS	2.52	2.65	2.65	2.65	2.80
30Y SGS	2.28	2.40	2.55	2.55	2.60
MGS yields	Current*	Q223	Q323	Q423	Q124
3Y MGS	3.41	3.40	3.40	3.40	3.30
5Y MGS	3.48	3.55	3.60	3.60	3.60
10Y MGS	3.74	3.90	4.00	4.05	4.05
IndoGB yields	Current*	Q223	Q323	Q423	Q124
2Y IndoGB	5.68	5.75	5.75	5.50	5.00
5Y IndoGB	6.05	6.05	6.05	5.85	5.40
10Y IndoGB	6.39	6.50	6.50	6.20	6.00

*Current refers to 31st May 2023

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FX	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
USD-JPY	138.00	135.00	130.00	129.00	128.00
EUR-USD	1.0800	1.0900	1.1000	1.1000	1.1100
GBP-USD	1.2400	1.2500	1.2600	1.2600	1.2700
AUD-USD	0.6800	0.6900	0.7000	0.7000	0.7100
NZD-USD	0.6200	0.6300	0.6400	0.6400	0.6500
USD-CAD	1.3500	1.3300	1.3200	1.3100	1.3000
USD-CHF	0.9000	0.9000	0.8900	0.8900	0.8900
USD-SEK	10.400	10.200	10.000	9.9000	9.9000
DXY	103.23	102.06	100.71	100.49	99.70
USD-SGD	1.3400	1.3300	1.3200	1.3100	1.3100
USD-CNY	7.1000	7.0000	6.9500	6.9000	6.8800
USD-CNH	7.1100	6.9900	6.9500	6.9000	6.8800
USD-THB	34.300	34.200	34.000	33.800	33.800
USD-IDR	14920	14850	14800	14750	14720
USD-MYR	4.5400	4.5200	4.5000	4.4600	4.4200
USD-KRW	1305.0	1275.0	1265.0	1260.0	1255.0
USD-TWD	30.600	30.500	30.400	30.300	30.200
USD-HKD	7.8400	7.8400	7.8300	7.8200	7.8200
USD-PHP	55.800	55.600	55.200	55.100	54.600
USD-INR	82.000	81.500	81.000	81.000	80.800
USD-VND	23400	23200	23200	23000	23000
EUR-JPY	149.04	147.15	143.00	141.90	142.08
EUR-GBP	0.8710	0.8720	0.8730	0.8730	0.8740
EUR-CHF	0.9720	0.9810	0.9790	0.9790	0.9879
EUR-SGD	1.4472	1.4497	1.452	1.441	1.4541
GBP-SGD	1.6616	1.6625	1.6632	1.6506	1.6637
AUD-SGD	0.9112	0.9177	0.924	0.917	0.9301
NZD-SGD	0.8308	0.8379	0.8448	0.8384	0.8515
CHF-SGD	1.4889	1.4778	1.4831	1.4719	1.4719
JPY-SGD	0.9710	0.9852	1.0154	1.0155	1.0234
SGD-MYR	3.3881	3.3985	3.4091	3.4046	3.3740
SGD-CNY	5.2985	5.2632	5.2652	5.2672	5.2519
SGD-IDR	11134	11165	11212	11260	11237
SGD-THB	25.597	25.714	25.758	25.802	25.802
SGD-PHP	41.642	41.805	41.818	42.061	41.679
SGD-CNH	5.3060	5.2556	5.2652	5.2672	5.2519
SGD-TWD	22.836	22.932	23.030	23.130	23.053
SGD-KRW	973.88	958.65	958.33	961.83	958.02
SGD-HKD	5.8507	5.8947	5.9318	5.9695	5.9695
SGD-JPY	102.98	101.50	98.484	98.473	97.710
Gold \$/oz	2000.0	2030.0	2050.0	2050.0	2070.0

Source: OCBC Research (Latest Forecast Update: 31st May 2023)

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