

Rates Outlook

28 March 2023

Interest Rate Forecasts (Mar – post FOMC update)

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1. After the March FOMC decision, our base-case is one final 25bp hike in the current tightening cycle, which will bring the Fed funds rate target range to 5.00-5.25%. For now, we maintain our expectation for the easing cycle to start in early 2024, as inflation remains a hurdle. We do note risk is to the downside to our expected Fed funds rate trajectory, depending on the extent to which the banking sector stresses affect credit conditions – which will essentially do part of the tightening job.
2. The FOMC delivered a 25bp hike at its March meeting while softening the forward guidance, in line with our expectation. While the Committee acknowledged that the recent (financial market/banking sector) developments are likely to result in tighter credit conditions for households and businesses, it has nevertheless left the option of additional tightening on the table. The median dot on the Fed's dot-plot did not change, remaining at 5.125% corresponding to a target range of 5.00-5.25%, but there were mild upward shifts in some of the individual dots. The distribution of individual dots is skewed to the upside around the median dot for both 2023 and 2024, meaning the hurdle is high for the median dots to move lower. On balance, monetary policy remains highly data dependent, but the development in the banking/financial sector comes into play via the implications on credit conditions and economic activities. The FOMC has revised downward 2023 and 2024 GDP forecasts, to 0.4% (from 0.5%) and 1.2% (from 1.6%) respectively.
3. Inflation remains a hurdle for the FOMC to turn dovish at this juncture. As reflected by the February CPI, the divergence between core goods inflation and core services inflation deepened. There is justification for the FOMC to stay vigilant against inflation risk, given the 58.2% weight for core services versus 21.3% weight for core goods in the CPI basket. One caveat is the very high CPI base effect around June, which will drag down headline YoY inflation meaningfully. We will however be surprised if the FOMC had not taken this into account when they made all those hawkish comments over the past months before the banking sector fallout. Next to watch is PCE deflator to be released on Friday, and again the core services component will be in focus.

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FX/Rates Forecast

USD Interest Rates	Current	Q223	Q323	Q423	Q124
FFTR upper	5.00	5.25	5.25	5.25	4.75
SOFR	4.80	5.05	5.05	5.05	4.55
1Y SOFR OIS	4.61	4.75	4.75	4.60	4.10
2Y SOFR OIS	3.97	4.20	4.20	4.05	3.65
5Y SOFR OIS	3.34	3.55	3.55	3.45	3.25
10Y SOFR OIS	3.21	3.35	3.35	3.25	3.15
15Y SOFR OIS	3.23	3.35	3.35	3.25	3.20
20Y SOFR OIS	3.19	3.30	3.30	3.20	3.15
30Y SOFR OIS	2.99	3.10	3.10	3.00	3.05
SGD Interest Rates	Current	Q223	Q323	Q423	Q124
SORA	3.55	3.85	3.85	3.85	3.55
1M SIBOR	4.10	4.35	4.35	4.35	3.85
1M SOR	4.01	3.91	3.98	4.05	3.69
3M SIBOR	4.19	4.45	4.45	4.45	3.80
3M SOR	3.98	4.06	4.13	4.20	3.84
6M SOR	3.81	4.16	4.23	4.30	3.94
1Y SGD OIS	3.28	3.55	3.60	3.60	3.24
2Y SGD OIS	3.07	3.35	3.35	3.35	3.05
3Y SGD OIS	2.99	3.25	3.30	3.30	3.08
5Y SGD OIS	2.86	3.15	3.25	3.25	3.10
10Y SGD OIS	2.84	3.10	3.15	3.15	3.05
15Y SGD OIS	2.83	3.12	3.17	3.17	3.10
20Y SGD OIS	2.83	3.14	3.19	3.19	3.15
MYR Interest Rates	Current	Q223	Q323	Q423	Q124
OPR	2.75	3.00	3.00	3.00	3.00
1M MYR KLIBOR	2.96	3.15	3.15	3.15	3.15
3M MYR KLIBOR	3.62	3.65	3.65	3.40	3.35
6M MYR KLIBOR	3.72	3.70	3.70	3.60	3.50
12M MYR KLIBOR	3.79	3.75	3.75	3.60	3.60
1Y MYR IRS	3.49	3.55	3.55	3.55	3.50
2Y MYR IRS	3.41	3.55	3.55	3.55	3.50
3Y MYR IRS	3.46	3.60	3.60	3.60	3.55
5Y MYR IRS	3.54	3.70	3.70	3.70	3.65
10Y MYR IRS	3.81	4.00	4.10	4.20	4.15
15Y MYR IRS	4.06	4.20	4.30	4.40	4.35
20Y MYR IRS	4.11	4.35	4.40	4.45	4.40
HKD Interest Rates	Current	Q223	Q323	Q423	Q124
1M HKD HIBOR	3.20	3.70	3.85	3.85	3.40
3M HKD HIBOR	3.72	4.25	4.35	4.35	3.90
2Y HKD IRS	3.53	3.70	3.70	3.60	3.40
5Y HKD IRS	3.29	3.50	3.60	3.60	3.60
10Y HKD IRS	3.38	3.65	3.80	3.80	3.75

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UST yields	Current	Q223	Q323	Q423	Q124
2Y UST	3.92	4.10	4.10	3.90	3.55
5Y UST	3.57	3.65	3.65	3.60	3.40
10Y UST	3.51	3.65	3.65	3.65	3.55
30Y UST	3.74	3.85	3.85	3.85	3.75
SGS yields	Current	Q223	Q323	Q423	Q124
2Y SGS	2.92	3.25	3.25	3.05	2.75
5Y SGS	2.79	3.00	3.00	3.00	2.80
10Y SGS	2.86	3.20	3.25	3.25	3.15
15Y SGS	2.82	3.30	3.45	3.50	3.50
20Y SGS	2.63	3.00	3.05	3.05	2.95
30Y SGS	2.37	2.65	2.75	2.75	2.70
MGS yields	Current	Q223	Q323	Q423	Q124
3Y MGS	3.35	3.55	3.55	3.55	3.50
5Y MGS	3.48	3.70	3.80	3.80	3.80
10Y MGS	3.88	4.10	4.15	4.20	4.20
IndoGB yields	Current	Q223	Q323	Q423	Q124
2Y IndoGB	6.16	6.35	6.50	6.50	6.40
5Y IndoGB	6.32	6.50	6.65	6.75	6.65
10Y IndoGB	6.73	6.90	7.10	7.10	7.00

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FX	End-Month Close	Mar-23	Jun-23	Sep-23	Dec-23
USD-JPY	136.17	135.00	132.00	130.00	127.00
EUR-USD	1.0576	1.0600	1.0800	1.0900	1.1000
GBP-USD	1.2022	1.2200	1.2300	1.2400	1.2600
AUD-USD	0.6729	0.6900	0.7000	0.7100	0.7200
NZD-USD	0.6185	0.6200	0.6300	0.6400	0.6500
USD-CAD	1.3647	1.3300	1.3100	1.3000	1.3000
USD-CHF	0.9422	0.9400	0.9300	0.9200	0.9100
USD-SEK	10.468	10.400	10.200	10.200	10.000
DXY	104.87	104.26	102.46	101.50	100.33
USD-SGD	1.3484	1.3350	1.3300	1.3250	1.3100
USD-CNY	6.9356	6.9000	6.8000	6.7000	6.6500
USD-CNH	6.9546	6.9000	6.8000	6.7000	6.6500
USD-THB	35.350	35.200	35.000	34.800	34.600
USD-IDR	15250	15200	15150	15050	15000
USD-MYR	4.4873	4.4200	4.4000	4.3800	4.3600
USD-KRW	1323.1	1280.0	1265.0	1255.0	1245.0
USD-TWD	30.469	30.500	30.400	30.300	30.200
USD-HKD	7.8494	7.8400	7.8400	7.8300	7.8100
USD-PHP	55.335	55.200	55.000	55.000	54.900
USD-INR	82.670	82.000	81.900	81.500	81.000
USD-VND	23791	23800	23700	23500	23400
EUR-JPY	143.99	143.10	142.56	141.70	139.70
EUR-GBP	0.8798	0.8689	0.8780	0.8790	0.8730
EUR-CHF	0.9965	0.9964	1.0044	1.0028	1.0010
EUR-SGD	1.4261	1.4151	1.4364	1.44425	1.4410
GBP-SGD	1.6209	1.6287	1.6359	1.6430	1.6506
AUD-SGD	0.9073	0.9212	0.9310	0.9408	0.9432
NZD-SGD	0.8339	0.8277	0.8379	0.8480	0.8515
CHF-SGD	1.4311	1.4202	1.4301	1.4402	1.4396
JPY-SGD	0.9898	0.9889	1.0076	1.0192	1.0315
SGD-MYR	3.3265	3.3109	3.3083	3.3057	3.3282
SGD-CNY	5.1475	5.1685	5.1128	5.0566	5.0763
SGD-IDR	11315	11386	11391	11358	11450
SGD-THB	26.114	26.367	26.316	26.264	26.412
SGD-PHP	41.008	41.348	41.353	41.509	41.908
SGD-CNH	5.1574	5.1685	5.1128	5.0566	5.0763
SGD-TWD	22.659	22.846	22.857	22.868	23.053
SGD-KRW	981.52	958.80	951.13	947.17	950.38
SGD-HKD	5.8211	5.8727	5.8947	5.9094	5.9618
SGD-JPY	101.00	101.12	99.248	98.113	96.947

*End-Month Close refers to 28th February close

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