

Rates Outlook

4 May 2021

Interest Rate Forecasts (May)

Selena Ling

Head of Strategy and Research

+65 6530 4887

LingSSSelena@ocbc.com

Frances Cheung

Rates Strategist

+65 6530 5949

FrancesCheung@ocbc.com

Highlights

- 1. Global risk sentiments were largely buffeted by a Covid resurgence particularly in India and virus mutations, notwithstanding the strong global growth recovery prospects, aided by the healthy economic data from the US especially with additional fiscal stimulus plans in the pipeline.** US President Biden had announced a further US\$4 trillion of fiscal spending to help families and jobs, comprising of a US\$2.25 trillion infrastructure plan and a US\$1.8 trillion American Families Plan in addition to the earlier US\$1.9 trillion package, all within his first 100 days in office, but is now talking about hiking taxes for the very wealthy and corporations to fund it. Meanwhile, over in the Eurozone, a second technical recession in 1Q21 flags how the vaccination drive has lagged, but hopes remain that it will be short-lived. For China, the first-in-first-out of the Covid crisis has seen a healthy bounce in 1Q GDP growth, albeit it fell slightly short of market expectations, and belies our view that no premature policy U-turn is in the near-term pipeline. For Asia, the picture is somewhat mixed with S'pore and South Korea surprising on the upside for 1Q21 GDP growth, but the deteriorating Covid situation in India, Japan and Malaysia bears watching as well.
- 2. At the central bank front, a breaking of ranks may have started to emerge with the Bank of Canada being the first G10 central bank to announce a tapering of its asset purchases.** Whilst the FOMC generally remained dovish in rhetoric, underpinned by Fed Chair Powell who reiterated that the upcoming jump in inflation is transitory and would need to see a "string" of strong data to achieve the "substantial further progress" towards their goals, nevertheless, some Fed members may not feel the same dovish convictions – note that Kaplan (non-voter) had begun to start the ball rolling with his comments that it is worth considering a taper. For now, financial markets are generally in a somewhat sweet spot with the improving macroeconomic outlook, still generally accommodative policy settings and supportive US quarterly earnings season, but the key is whether the tide will turn back to slightly more risk-off (aka the "sell in May and go away" phenomenon) into May since most of the goods news have been priced in and the Covid mutations/resurgence is making a comeback.
- 3. Fed Chair Powell reiterated that now is not the time to talk about tapering yet and it is likely to be some time before substantial progress is made to achieve the Fed's goals.** Our base case remains that the Fed will hold off any asset purchase taper for as long as they can, but the upside growth and inflation momentum, partly fuelled by Biden's fiscal spending push and global supply chain disruptions respectively will continue to keep market speculation alight for now. The June FOMC will be keenly watched, especially if a further breaking of Fed ranks on the issue materialises. Further out, the Fed is still unlikely to hike interest rates before 2023.

Rates Outlook

4 May 2021

4. **Market is likely to pay more attention to the data and its own assessment on the economy and inflation. Economic prospect and inflation expectations, together with lingering supply, point to an upward bias for yields.** We hold onto our multi-week expected range of 1.55-1.75% for the 10Y bond. Meanwhile, the deeply negative real yields shall set a floor to nominal yields; nominal yields shall play catch-up instead. Front-end liquidity is likely to stay flush, as the Fed asset purchase and the reduction in Treasury's cash balance with the Fed continues. 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.
5. **In Asia, there appears to be a lack of buy/sell interest at front-end USD/SGD swap amid the flush USD liquidity,** keeping the USD/SGD forward points supported. Subsequently, front-end **USD-USD rates spreads** are unlikely to narrow meaningfully near-term. At the mid to long end, however, our view remains that **SGS** shall outperform USTs under different fiscal/supply dynamics. Recent **IndoGB** auctions garnered better demand with a higher acceptance rate by the government; that said, misalignment between market levels and "appropriate" levels as seen by the government remains. The IndoGB yield curve is flat on a historical basis and we do not expect further outperformance at the long end. The **MGS** curve is biased to steepening, with the 3s10s segment being one standard deviation flatter than 6M average. Confusion over funding of some fiscal expenditure items, and duration supply may affect bond market sentiment in the coming weeks. **CGBs** have so far benefitted from the lighter-than-expected LGB (local government bond) supply; issuance is expected to pick up in coming months, exerting a mild upward pressure on CGB yields. That said, favourable yield differentials shall lead to CGB outperformance over USTs.

Rates Outlook

4 May 2021

FX/Rates Forecast

USD Interest Rates	1Q21	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%	0.00-0.25%	0.00-0.25%
1-month LIBOR	0.11%	0.13%	0.13%	0.13%	0.16%	0.20%
2-month LIBOR	0.15%	0.17%	0.17%	0.18%	0.24%	0.30%
3-month LIBOR	0.19%	0.23%	0.27%	0.28%	0.30%	0.40%
6-month LIBOR	0.21%	0.24%	0.28%	0.30%	0.33%	0.45%
12-month LIBOR	0.28%	0.32%	0.36%	0.38%	0.42%	0.54%
1-year swap rate	0.21%	0.22%	0.26%	0.28%	0.32%	0.45%
2-year swap rate	0.28%	0.30%	0.33%	0.38%	0.50%	0.75%
3-year swap rate	0.48%	0.50%	0.52%	0.56%	0.62%	0.90%
5-year swap rate	0.96%	1.09%	1.14%	1.22%	1.40%	1.55%
10-year swap rate	1.64%	1.82%	1.92%	2.02%	2.12%	2.22%
15-year swap rate	1.90%	2.09%	2.18%	2.27%	2.37%	2.45%
20-year swap rate	2.01%	2.20%	2.30%	2.39%	2.48%	2.55%
30-year swap rate	2.05%	2.25%	2.32%	2.41%	2.50%	2.59%
SGD Interest Rates	1Q21	2Q21	3Q21	4Q21	2022	2023
1-month SIBOR	0.26%	0.28%	0.29%	0.29%	0.30%	0.37%
1-month SOR	0.23%	0.34%	0.34%	0.35%	0.36%	0.40%
3-month SIBOR	0.44%	0.44%	0.44%	0.44%	0.47%	0.55%
3-month SOR	0.29%	0.36%	0.36%	0.37%	0.38%	0.43%
6-month SIBOR	0.59%	0.59%	0.59%	0.59%	0.63%	0.67%
6-month SOR	0.31%	0.36%	0.37%	0.38%	0.40%	0.45%
1-year swap rate	0.37%	0.38%	0.38%	0.39%	0.41%	0.45%
2-year swap rate	0.48%	0.52%	0.53%	0.58%	0.62%	0.68%
3-year swap rate	0.67%	0.63%	0.65%	0.67%	0.76%	0.86%
5-year swap rate	1.08%	1.16%	1.19%	1.22%	1.24%	1.28%
10-year swap rate	1.66%	1.80%	1.88%	1.95%	2.05%	2.15%
15-year swap rate	1.84%	1.97%	2.07%	2.12%	2.22%	2.32%
20-year swap rate	1.85%	1.92%	1.98%	2.05%	2.18%	2.30%
30-year swap rate	1.85%	1.95%	2.05%	2.15%	2.27%	2.37%
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	2.02%	1.98%	2.00%	2.05%	2.10%	2.25%
2-year swap rate	2.24%	2.11%	2.13%	2.15%	2.20%	2.35%
3-year swap rate	2.42%	2.50%	2.55%	2.60%	2.65%	2.72%
5-year swap rate	2.70%	2.78%	2.83%	2.90%	3.00%	3.10%
10-year swap rate	3.08%	3.25%	3.32%	3.42%	3.45%	3.52%
15-year swap rate	3.34%	3.56%	3.59%	3.65%	3.68%	3.72%
20-year swap rate	3.50%	3.77%	3.82%	3.90%	3.92%	3.98%

Rates Outlook

4 May 2021

UST bond yields	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year UST bond yield	0.16%	0.18%	0.22%	0.27%	0.40%	0.65%
5-year UST bond yield	0.87%	0.97%	1.02%	1.10%	1.30%	1.45%
10-year UST bond yield	1.64%	1.80%	1.90%	2.00%	2.10%	2.20%
30-year UST bond yield	2.30%	2.50%	2.55%	2.60%	2.65%	2.70%
SGS bond yields	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year SGS yield	0.43%	0.53%	0.55%	0.59%	0.65%	0.75%
5-year SGS yield	0.79%	0.90%	0.94%	1.02%	1.18%	1.28%
10-year SGS yield	1.62%	1.78%	1.85%	1.90%	2.00%	2.08%
15-year SGS yield	1.96%	2.10%	2.12%	2.15%	2.22%	2.27%
20-year SGS yield	1.99%	2.12%	2.15%	2.22%	2.34%	2.39%
30-year SGS yield	1.96%	2.12%	2.16%	2.24%	2.36%	2.41%
MGS forecast	1Q21	2Q21	3Q21	4Q21	2022	2023
3-year MGS yield	2.37%	2.35%	2.40%	2.45%	2.55%	2.65%
5-year MGS yield	2.58%	2.70%	2.75%	2.83%	2.95%	3.05%
10-year MGS yield	3.15%	3.30%	3.37%	3.45%	3.48%	3.52%

FX	Spot	May-21	Jun-21	Sep-21	Dec-21	Mar-22
USD-JPY	109.31	110.21	110.57	111.25	111.53	111.71
EUR-USD	1.2020	1.1927	1.1891	1.1887	1.1941	1.2000
GBP-USD	1.3822	1.3700	1.3706	1.3672	1.3778	1.3966
AUD-USD	0.7716	0.7672	0.7651	0.7688	0.7775	0.7864
NZD-USD	0.7162	0.7121	0.7106	0.7138	0.7260	0.7406
USD-CAD	1.2287	1.2189	1.2146	1.2124	1.2185	1.2261
USD-CHF	0.9131	0.9201	0.9228	0.9117	0.9034	0.9015
USD-SGD	1.3308	1.3370	1.3369	1.3397	1.3283	1.3089
USD-CNY	6.4749	6.4909	6.4674	6.4287	6.3904	6.3445
USD-THB	31.14	31.35	31.45	31.49	31.08	30.53
USD-IDR	14,445	14,515	14,564	14,501	14,343	14,190
USD-MYR	4.0880	4.0987	4.1039	4.0706	4.0320	4.0028
USD-KRW	1112.40	1120.63	1120.60	1106.10	1091.94	1081.56
USD-TWD	27.933	27.988	28.008	27.861	27.734	27.671
USD-HKD	7.7675	7.7725	7.7738	7.7717	7.7533	7.7533
USD-PHP	48.12	48.20	48.24	48.17	47.98	47.76
USD-INR	74.09	74.26	74.01	73.60	73.14	72.55
EUR-JPY	131.40	131.44	131.49	132.24	133.18	134.06
EUR-GBP	0.8701	0.8705	0.8676	0.8694	0.8667	0.8593
EUR-CHF	1.0978	1.0973	1.0974	1.0837	1.0788	1.0818
EUR-SGD	1.5997	1.5946	1.5897	1.5925	1.5862	1.5708
GBP-SGD	1.8399	1.8318	1.8323	1.8318	1.8302	1.8280
AUD-SGD	1.0266	1.0258	1.0229	1.0299	1.0328	1.0293
NZD-SGD	0.9529	0.9520	0.9499	0.9563	0.9643	0.9694
CHF-SGD	1.4574	1.4532	1.4486	1.4696	1.4704	1.4519
JPY-SGD	1.2171	1.2132	1.2090	1.2043	1.1910	1.1717
SGD-MYR	3.0850	3.0655	3.0698	3.0384	3.0354	3.0581
SGD-CNY	4.8668	4.8547	4.8378	4.7985	4.8109	4.8471

Treasury Research & Strategy

Macro Research

Selena Ling

Head of Research & Strategy

LingSSSelena@ocbc.com

Tommy Xie Dongming

Head of Greater China Research

XieD@ocbc.com

Wellian Wiranto

Malaysia & Indonesia

WellianWiranto@ocbc.com

Howie Lee

Thailand & Commodities

HowieLee@ocbc.com

Carie Li

Hong Kong & Macau

carierli@ocbcwh.com

Herbert Wong

Hong Kong & Macau

herberhtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung

Rates Strategist

FrancesCheung@ocbc.com

Terence Wu

FX Strategist

TerenceWu@ocbc.com

Credit Research

Andrew Wong

Credit Research Analyst

WongVKAM@ocbc.com

Ezien Hoo

Credit Research Analyst

EzienHoo@ocbc.com

Wong Hong Wei

Credit Research Analyst

WongHongWei@ocbc.com

Seow Zhi Qi

Credit Research Analyst

ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, Bank of Singapore Limited, OCBC Investment Research Private Limited, OCBC Securities Private Limited or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W