

Interest Rate Forecasts (Nov)

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Highlights

1. **While counting continues for the US elections, signs are emerging that Biden remains primed to become the next President but may be denied a Blue Wave as Republicans retain control of the Senate.** Financial market players sustained its “glass half-full” mentality, opting to focus on the likelihood that Biden may be restrained from hiking corporate tax rates and tightening tech regulations. Even the prospect of a smaller fiscal stimulus package was interpreted as less adverse for the UST bond market in terms of funding needs. Market reaction is equities higher, UST unwinding initial sell-off, and USD softer, despite the lingering risk of a contested election and Trump’s threats to mount legal challenges. Near-term, market focus will be dominated by ongoing US election headlines, but the rising global Covid cases and growing lockdowns, especially in Europe may come back to haunt.
2. **FOMC was a non-event as largely expected, opting to keep the boat on a steady keel even as it explores options to potentially do more to compensate for any fiscal stimulus shortfall to prevent the US economy from sliding.** The FOMC statement flagged that employment continued to recover and financial conditions remain accommodative. Fed chair Powell also opined that “we’ll have a stronger recovery if we can just get at least some more fiscal support” even as Fed officials discussed options for modifying their asset purchase program parameters to “deliver more accommodation if it turns out to be appropriate”. The next FOMC meeting is on 15-16 December.
3. **China’s ruling community party rolled out its guidelines for 14th Five Year Plan as well as 2035 vision.** Although it is not clear whether China will set a growth target for its 14th five-year plan, China may still keep a soft growth target for the next 15 years as it plans to boost its GDP per capita to the level on par with moderate developed country by 2035, which is at least US\$20000. This hints that China may still need to grow by average 3-4% in real term over the next 15 years. China’s promotion of dual circulation strategy does not mean China will become more inward looking. President Xi announced that China will import about US\$22 trillion goods in the next decade. China’s exit of previous administrative intervention including risk reserve for purchasing foreign currency derivative and counter cyclical factor from the daily fixing is a speed bump rather than a game changer. China has limited tool to stop RMB from appreciating due to constraints from its monetary policy. We expect the near term movement of the currency will depend on the outcome of US election.
4. **Volatility returned to the crude oil market after trading in tight ranges in the past three months.** The 3-month implied volatility in Brent rose to as high as 52% in early November after being stuck at 40% since mid-September, after the benchmark crude fell more than 10% in a week. We expect further weakness in the crude complex as we enter the last stretch of 2020.

Rates Outlook

6 November 2020

USD Interest Rates	4Q20	1Q21	2Q21	3Q2Q	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%	0-0.25%
1-month LIBOR	0.14%	0.14%	0.15%	0.15%	0.15%	0.20%	0.27%
2-month LIBOR	0.17%	0.18%	0.19%	0.19%	0.20%	0.25%	0.30%
3-month LIBOR	0.23%	0.24%	0.24%	0.25%	0.25%	0.30%	0.35%
6-month LIBOR	0.24%	0.25%	0.26%	0.27%	0.28%	0.32%	0.38%
12-month LIBOR	0.33%	0.34%	0.34%	0.35%	0.35%	0.40%	0.45%
1-year swap rate	0.22%	0.23%	0.24%	0.24%	0.25%	0.30%	0.35%
2-year swap rate	0.23%	0.24%	0.25%	0.26%	0.27%	0.32%	0.37%
3-year swap rate	0.27%	0.28%	0.28%	0.29%	0.30%	0.35%	0.40%
5-year swap rate	0.40%	0.41%	0.42%	0.44%	0.45%	0.50%	0.55%
10-year swap rate	0.80%	0.81%	0.83%	0.84%	0.85%	0.90%	1.00%
15-year swap rate	1.03%	1.04%	1.04%	1.05%	1.05%	1.10%	1.15%
20-year swap rate	1.15%	1.16%	1.17%	1.19%	1.20%	1.25%	1.30%
30-year swap rate	1.22%	1.24%	1.26%	1.28%	1.30%	1.35%	1.40%
SGD Interest Rates	4Q20	1Q21	2Q21	3Q2Q	4Q21	2022	2023
1-month SIBOR	0.24%	0.25%	0.26%	0.27%	0.28%	0.30%	0.33%
1-month SOR	0.12%	0.12%	0.13%	0.13%	0.13%	0.15%	0.18%
3-month SIBOR	0.40%	0.41%	0.41%	0.42%	0.42%	0.45%	0.48%
3-month SOR	0.18%	0.19%	0.19%	0.20%	0.20%	0.23%	0.27%
6-month SIBOR	0.59%	0.60%	0.61%	0.61%	0.62%	0.65%	0.68%
6-month SOR	0.18%	0.19%	0.20%	0.20%	0.21%	0.26%	0.29%
12-month SIBOR	0.81%	0.82%	0.82%	0.83%	0.83%	0.85%	0.88%
1-year swap rate	0.18%	0.19%	0.20%	0.22%	0.23%	0.30%	0.35%
2-year swap rate	0.21%	0.23%	0.24%	0.26%	0.27%	0.35%	0.40%
3-year swap rate	0.28%	0.29%	0.30%	0.32%	0.33%	0.38%	0.44%
5-year swap rate	0.45%	0.46%	0.47%	0.47%	0.48%	0.55%	0.60%
10-year swap rate	0.80%	0.81%	0.83%	0.84%	0.85%	0.90%	0.95%
15-year swap rate	0.93%	0.95%	0.97%	0.98%	1.00%	1.05%	1.10%
20-year swap rate	0.95%	0.97%	0.99%	1.01%	1.03%	1.10%	1.12%
30-year swap rate	0.96%	0.98%	1.00%	1.03%	1.05%	1.13%	1.15%

Rates Outlook

6 November 2020

MYR forecast	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
OPR	1.75%	1.50%	1.50%	1.50%	1.50%	1.50%	1.75%
1-month KLIBOR	1.86%	1.61%	1.61%	1.62%	1.62%	1.65%	1.85%
3-month KLIBOR	1.95%	1.70%	1.71%	1.72%	1.73%	1.75%	1.90%
6-month KLIBOR	2.09%	1.84%	1.85%	1.85%	1.86%	1.90%	2.05%
12-month KLIBOR	2.22%	1.97%	1.98%	1.99%	2.00%	2.05%	2.20%
1-year swap rate	1.85%	1.65%	1.67%	1.68%	1.70%	1.75%	1.85%
2-year swap rate	1.83%	1.63%	1.66%	1.70%	1.73%	1.78%	1.88%
3-year swap rate	1.91%	1.71%	1.72%	1.74%	1.75%	1.80%	1.90%
5-year swap rate	2.11%	1.91%	1.94%	1.97%	2.00%	2.05%	2.10%
10-year swap rate	2.53%	2.38%	2.38%	2.39%	2.40%	2.45%	2.50%
15-year swap rate	2.73%	2.63%	2.63%	2.64%	2.65%	2.70%	2.75%
20-year swap rate	2.91%	2.81%	2.82%	2.84%	2.85%	2.90%	2.95%
SGS bond yields	4Q20	1Q21	2Q21	3Q21	4Q21	2022	2023
2-year SGS yield	0.26%	0.27%	0.28%	0.29%	0.30%	0.33%	0.35%
5-year SGS yield	0.42%	0.43%	0.43%	0.44%	0.45%	0.48%	0.55%
10-year SGS yield	0.79%	0.80%	0.82%	0.83%	0.85%	0.88%	0.95%
15-year SGS yield	1.06%	1.06%	1.07%	1.07%	1.08%	1.13%	1.17%
20-year SGS yield	1.10%	1.11%	1.12%	1.14%	1.15%	1.18%	1.22%
30-year SGS yield	1.00%	1.01%	1.03%	1.04%	1.05%	1.20%	1.25%
MGS forecast	4Q20	1Q21	2Q21	3Q21	4Q21	2022	
3-year MGS yield	1.82%	1.60%	1.62%	1.63%	1.65%	1.70%	
5-year MGS yield	2.11%	1.90%	1.92%	1.93%	1.95%	2.00%	
10-year MGS yield	2.69%	2.50%	2.52%	2.53%	2.55%	2.60%	
UST bond yields	4Q20	1Q21	2Q21	3Q21	4Q21	2022	
2-year UST bond yield	0.14%	0.16%	0.17%	0.18%	0.19%	0.25%	
5-year UST bond yield	0.33%	0.34%	0.34%	0.35%	0.35%	0.40%	
10-year UST bond yield	0.77%	0.78%	0.79%	0.79%	0.80%	0.85%	
30-year UST bond yield	1.54%	1.55%	1.57%	1.58%	1.60%	1.65%	

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