

## Rates Outlook

2 September 2021

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# Interest Rate Forecasts (September)

## Highlights

- 1. After a risk-supportive July, Fed chair Powell's hat trick at the Jackson Hole symposium of signalling an imminent taper while detaching the interest rate lift off did the trick of sustaining global risk sentiments into the month-end of August.** US equity markets notched fresh record highs while UST bonds also rallied with the 10-year yield back below the 1.3% handle. This was notwithstanding the increased regulatory clampdown in China on private industries and heightened concern about the US withdrawal from Afghanistan, amongst others. Meanwhile, Bank of Korea has initiated its first rate hike, even though the RBNZ chose to maintain a hawkish hold for the time being. With global vaccination rates continuing to tick higher, we anticipate that it is a matter of time where more central bankers pivot towards the withdrawing more monetary policy accommodation. One key exception may be China where the slowing growth momentum in August may mean another RRR cut is on the way.
- 2. Inflationary concerns have subsided as Powell pushed back on the recent hawkish Fed rhetoric.** Although commodity prices like crude oil have stabilised, and the Delta variant has recently taken some shine off growth expectations, some manufacturing businesses are grappling with increased logistics costs, manpower constraints and raw material shortages due to border closures. This situation may persist well into the year-end, and the familiar tagline about inflation being transitory and due to low base effects from 2020 may change. In fact, OPEC+ tips global oil markets to tighten further this year before higher output quotas alleviate in 2022.
- 3. The Fed's taper intentions appear imminent, but market players view the glass half full as Powell continues to downplay rate lift-off risks after the taper concludes.** Meanwhile, the rise of the Delta variants and twin concerns of growth momentum slowing in both the US and China should keep bond yields from re-testing year-to-date highs in the short-term, even if the recently elevated Eurozone inflation continues to fuel market speculation of an ECB pivot. This contrasts with China where the ongoing increased regulatory scrutiny of private industries to achieve "common prosperity" objectives may imply the need for potential monetary policy accommodation in the form of RRR cuts (as opposed to interest rate cuts).

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4. **In US, Treasury yields edged up over the past month after some intra-month fluctuations, mainly on the back of higher real yields while inflation expectations are virtually flat on the month.** Key level for the 10Y UST remains at 1.288%; stronger traction to either direction will open up for a move to 1.45/1.50% on the upside and 1.14% on the downside. Over a multi-week horizon, our bias is for the 10Y yield to mostly trade at the 1.25-1.50% range. The deeply negative real yield and mildly negative to zero term premium reflect an overly pessimistic growth outlook. The pace of taper and economic data (confirming as to whether the economic recovery has been derailed by the Delta virus) will provide the impetus for more directional move in yields.
5. In Asia, **SOR/SORA basis** has been mostly moving in tandem with **SGD IRS-OIS spreads**, and rightly so as the basis is mainly used to facilitate hedging activities. Downside room for front-end IRS-OIS spread and SOR/SORA basis is limited given the different nature of the floating rates. The credit and term premium appear to be fairly narrow currently at the 1Y. On bond side, the 20Y supply came on the light side, giving way to the upcoming **30Y SGS (Infrastructure)** at which demand including that from real money is likely to be solid. Overall SGS supply shall prove manageable. Not facing much supply pressure and being highly rated, 10Y SGS yield shall gradually trade back to around/below 10Y UST yield. A favourable supply-demand matrix saw **IndoGBs** supported, with the 10Y yield having retracing by a cumulative 20bp+ before profit-taking flows came in. Supporting factors including reduced supply pressure, extended debt-sharing (with any credit concern being brushed aside) and a relatively stable Rupiah amid the trade surplus and BI support, continued to be at play. The **MGS curve** is biased to steepening mildly given cautiousness over supply, while front-end rates shall be better anchored by an accommodative monetary policy. There is an increased likelihood of an extension to the accommodative fiscal stance, with PM likely trying to spearhead effort to raise the 60% debt ceiling. While supply so far has been manageable, after the latest round of index-induced duration extension, investors shall turn cautious towards the long end. The **CGB** market braces for tighter liquidity ahead with LGB issuances and MLF maturity. Liquidity injections including an RRR cut cannot be ruled out; but even so, the liquidity situation shall not become a loose one. The 10Y CGB yield is likely to stay in a range of 2.80-3.0% on a multi-week horizon. We favour CGBs on a cross-sectional comparison among regional peers; being long CGBs shall be a strategy going for the coupon, rather than capital gain.

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### FX/Rates Forecast

USD Interest Rates	Current	3Q21	4Q21	1Q22	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%	0.50-0.75%
SOFR	0.05%	0.05%	0.05%	0.06%	0.07%	0.55%
1-month LIBOR	0.09%	0.11%	0.13%	0.14%	0.16%	0.66%
2-month LIBOR	0.10%	0.13%	0.18%	0.20%	0.24%	0.74%
3-month LIBOR	0.12%	0.16%	0.24%	0.28%	0.40%	0.80%
6-month LIBOR	0.15%	0.20%	0.27%	0.30%	0.42%	0.83%
12-month LIBOR	0.24%	0.30%	0.34%	0.35%	0.47%	0.87%
1-year swap rate	0.16%	0.22%	0.27%	0.30%	0.42%	0.83%
2-year swap rate	0.31%	0.31%	0.36%	0.40%	0.65%	1.00%
3-year swap rate	0.55%	0.55%	0.56%	0.60%	0.80%	1.15%
5-year swap rate	0.89%	0.90%	1.07%	1.20%	1.45%	1.75%
10-year swap rate	1.33%	1.50%	1.75%	1.87%	2.15%	2.40%
15-year swap rate	1.53%	1.68%	2.02%	2.12%	2.27%	2.50%
20-year swap rate	1.62%	1.75%	2.14%	2.20%	2.38%	2.60%
30-year swap rate	1.66%	1.80%	2.10%	2.22%	2.50%	2.62%
SGD Interest Rates	Current	3Q21	4Q21	1Q22	2022	2023
SORA	0.23%	0.13%	0.13%	0.13%	0.16%	0.50%
1-month SIBOR	0.27%	0.29%	0.29%	0.29%	0.30%	0.65%
1-month SOR	0.16%	0.19%	0.24%	0.25%	0.34%	0.65%
3-month SIBOR	0.43%	0.43%	0.44%	0.45%	0.47%	0.80%
3-month SOR	0.18%	0.22%	0.27%	0.28%	0.38%	0.75%
6-month SIBOR	0.59%	0.59%	0.59%	0.60%	0.63%	0.87%
6-month SOR	0.21%	0.23%	0.28%	0.29%	0.38%	0.76%
1-year swap rate	0.26%	0.26%	0.29%	0.31%	0.40%	0.77%
1-year OIS	0.20%	0.21%	0.22%	0.22%	0.30%	0.66%
2-year swap rate	0.45%	0.40%	0.41%	0.43%	0.62%	0.98%
2-year OIS	0.31%	0.27%	0.27%	0.28%	0.47%	0.83%
3-year swap rate	0.73%	0.68%	0.68%	0.69%	0.76%	1.22%
5-year swap rate	1.09%	1.10%	1.18%	1.20%	1.24%	1.57%
10-year swap rate	1.52%	1.50%	1.60%	1.65%	1.90%	2.15%
15-year swap rate	1.66%	1.67%	1.80%	1.88%	2.05%	2.23%
20-year swap rate	1.68%	1.68%	1.83%	1.88%	2.10%	2.25%
30-year swap rate	1.68%	1.70%	1.85%	1.89%	2.15%	2.25%
MYR forecast	Current	3Q21	4Q21	1Q22	2022	2023
OPR	1.75%	1.50%	1.50%	1.50%	1.75%	2.00%
1-month KLIBOR	1.86%	1.67%	1.67%	1.72%	1.87%	2.05%
3-month KLIBOR	1.94%	1.75%	1.75%	1.75%	1.95%	2.20%
6-month KLIBOR	2.02%	1.84%	1.84%	1.84%	2.05%	2.25%
12-month KLIBOR	2.11%	2.00%	2.00%	2.05%	2.20%	2.40%
1-year swap rate	1.95%	1.80%	1.80%	1.85%	2.10%	2.30%
2-year swap rate	2.18%	2.13%	2.15%	2.20%	2.35%	2.50%
3-year swap rate	2.36%	2.40%	2.48%	2.55%	2.70%	2.85%
5-year swap rate	2.63%	2.68%	2.80%	2.85%	3.00%	3.15%
10-year swap rate	3.10%	3.16%	3.28%	3.33%	3.45%	3.60%
15-year swap rate	3.35%	3.40%	3.55%	3.59%	3.68%	3.80%
20-year swap rate	3.52%	3.60%	3.75%	3.83%	3.92%	4.04%

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UST bond yields	Current	3Q21	4Q21	1Q22	2022	2023
2-year UST bond yield	0.22%	0.22%	0.27%	0.30%	0.55%	0.90%
5-year UST bond yield	0.80%	0.80%	0.95%	1.07%	1.30%	1.60%
10-year UST bond yield	1.31%	1.50%	1.75%	1.82%	2.10%	2.35%
30-year UST bond yield	1.92%	2.05%	2.30%	2.40%	2.65%	2.70%
SGS bond yields	Current	3Q21	4Q21	1Q22	2022	2023
2-year SGS yield	0.37%	0.39%	0.42%	0.45%	0.65%	0.90%
5-year SGS yield	0.83%	0.85%	0.90%	1.02%	1.20%	1.45%
10-year SGS yield	1.44%	1.45%	1.60%	1.65%	1.90%	2.10%
15-year SGS yield	1.71%	1.72%	1.90%	2.02%	2.22%	2.27%
20-year SGS yield	1.87%	1.90%	2.00%	2.10%	2.25%	2.30%
30-year SGS yield	1.87%	1.90%	2.10%	2.15%	2.30%	2.37%
MGS forecast	Current	3Q21	4Q21	1Q22	2022	2023
3-year MGS yield	2.35%	2.35%	2.45%	2.47%	2.55%	2.65%
5-year MGS yield	2.69%	2.70%	2.83%	2.86%	2.95%	3.05%
10-year MGS yield	3.23%	3.30%	3.45%	3.46%	3.48%	3.52%

FX	Spot	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
USD-JPY	110.20	110.49	111.01	111.94	112.66	113.37
EUR-USD	1.1803	1.1723	1.1669	1.1860	1.1880	1.2020
GBP-USD	1.3740	1.3636	1.3892	1.4078	1.4270	1.4461
AUD-USD	0.7318	0.7241	0.7198	0.7258	0.7401	0.7543
NZD-USD	0.7044	0.7079	0.6977	0.7017	0.7214	0.7410
USD-CAD	1.2629	1.2675	1.2641	1.2457	1.2316	1.2175
USD-CHF	0.9175	0.9210	0.9107	0.9084	0.9065	0.9047
USD-SGD	1.3446	1.3416	1.3537	1.3466	1.3298	1.3129
USD-CNY	6.4633	6.4495	6.4264	6.4064	6.3878	6.3692
USD-THB	32.25	31.91	32.52	32.06	31.48	30.90
USD-IDR	14,268	14,184	14,277	14,109	14,058	14,008
USD-MYR	4.1442	4.1345	4.1463	4.1061	4.0766	4.0471
USD-KRW	1158.75	1163.14	1159.77	1139.68	1117.99	1096.30
USD-TWD	27.701	27.600	27.828	27.654	27.5125	27.37
USD-HKD	7.7772	7.7600	7.7833	7.7675	7.7600	7.7525
USD-PHP	49.79	49.60	50.13	49.86	49.30	48.74
USD-INR	73.01	72.57	73.09	72.59	72.45	72.32
EUR-JPY	130.09	129.53	129.54	131.42	133.84	136.28
EUR-GBP	0.8593	0.8597	0.8400	0.8339	0.8326	0.8312
EUR-CHF	1.0828	1.0798	1.0627	1.0665	1.0770	1.0875
EUR-SGD	1.5879	1.5728	1.5797	1.5810	1.5798	1.5782
GBP-SGD	1.8478	1.8295	1.8806	1.8958	1.8976	1.8987
AUD-SGD	0.9844	0.9715	0.9744	0.9775	0.9841	0.9903
NZD-SGD	0.9478	0.9498	0.9445	0.9450	0.9592	0.9728
CHF-SGD	1.4665	1.4566	1.4865	1.4824	1.4669	1.4512
JPY-SGD	1.2206	1.2142	1.2194	1.2030	1.1804	1.1580
SGD-MYR	3.0825	3.0818	3.0630	3.0492	3.0656	3.0825
SGD-CNY	4.8035	4.8073	4.7473	4.7574	4.8037	4.8512

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