GLOBAL MARKETS RESEARCH

Interest Rates Focus

15 April 2024

USD rates and SGD rates forecasts update

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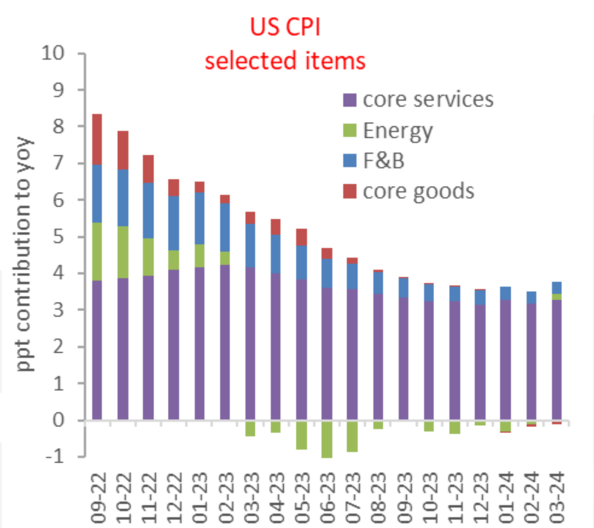
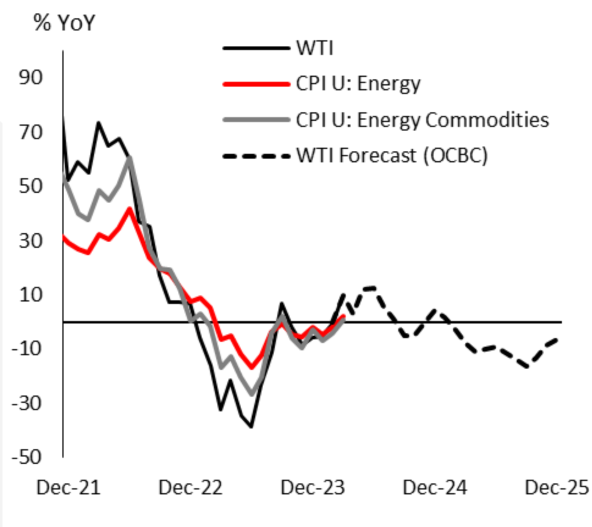
- Following our upward revisions to oil price forecasts and to 2024 US GDP forecast, we have removed one 25bp Fed funds rate cut from our expected profile. We now expect a total of 75bps of Fed funds rate cuts this year, which will bring the target range of the Fed funds rate to 4.50-4.75% by year-end. Our assessment is the broader disinflation trend remains, so does the Fed's easing agenda; but interim bumps in inflation mean the Fed is not going to cut rate just yet, and a delay in the timing of the first rate cut will reduce the room for rate cuts to be delivered between now and year-end.

- Energy inflation likely more than offsets the favourable base effect that we have previously factored in, leaving headline inflation at levels that may be too high for the FOMC to gain enough confidence to start cutting rates at the June FOMC meeting. Earlier, we have revised upward 2024 US GDP forecast to 1.5% from 1.0%; this adds further to the notion that there is no urgency for the Fed to cut rates. Should energy prices ease materially in May, a June rate cut might be put back on the table.

- As for MAS, the monetary policy easing window is open for 2H24 but is data-dependent – if core CPI shows signs of subsiding earlier or more materially than anticipated, then July or October MPS may be fair game, but this is not our base scenario at this juncture.

- Accordingly, we have revised UST yields, USD SOFR OIS, SGS yields and SGD SORA OIS forecasts (see forecast table in this report).





Source: Bloomberg, CEIC, OCBC Research

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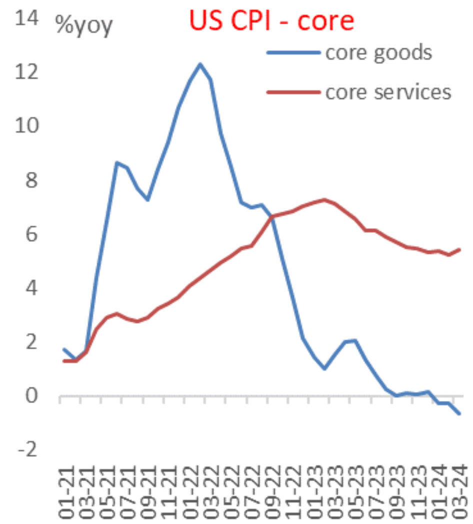
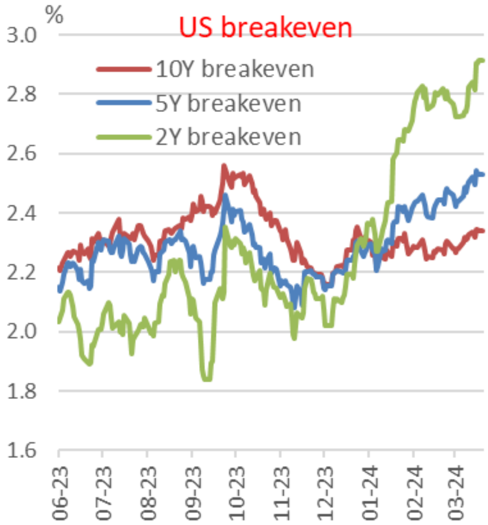
- **US CPI.** Headline CPI inflation picked up to 3.5%YoY in March, beating consensus of 3.4%. The energy component contributed positively to headline YoY inflation, after being a drag for twelve months. Core goods inflation continued to be a negative YoY contributor. Core services inflation re-accelerated to 5.40%YoY; since it dropped below the 5.50% market last October, core services inflation had ranged between 5.22-5.47%, reflecting its stickiness. Contribution from core services excluding rent of shelter – a key indicator that the FOMC monitors - ticked up. FOMC minutes showed most members largely downplayed January and February inflation data, citing strong seasonality, a view that we have held as well. But given the March CPI also printed to the upside, we can no longer shrug it off with such reasoning. For April and May CPI readings, with energy (which has a weight of 6.9% in the US CPI basket) likely to add further to headline inflation while services inflation may remain a bit sticky, risk is tilted to the upside. We have revised upward Brent oil price forecasts to average USD86.4/bbl, USD88.2/bbl and USD84.1/bbl for Q2, Q3, and Q4 respectively. Pass-through from oil prices to US CPI has varied, but the general observation is that the impact was felt with a short time lag.



Source: CEIC, OCBC Research

- **USD rates.** Market has pared back rate cuts expectation to a large extent; Fed funds futures now price a total of 45bps of cuts this year. After recent market adjustments, there are factors which support USTs at current levels. First, upside risk to energy prices partly emanates from geopolitics, which shall result in some safe haven flows into USTs; Second, with higher market rates now, financial condition is getting tighter which works towards Fed's easing agenda instead of being against it when the market was running ahead of the curve at the start of the year. Third, QT taper may come soon. On a multi-month horizon, we maintain a downward trajectory for UST yields and USD OIS. At the short-end, breakeven appears elevated; at the longer end, downward adjustment may be more driven by real yield. Overall, we maintain a steepening bias to the UST curve.

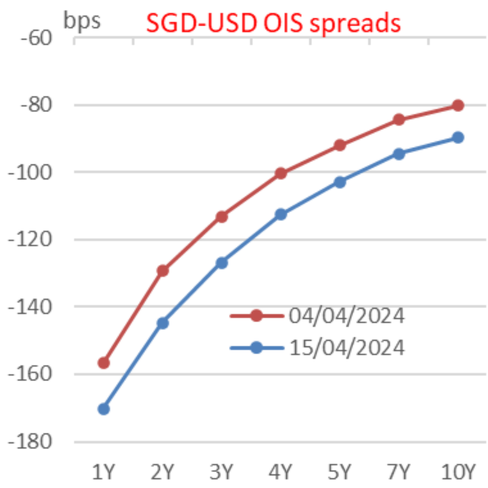


Source: Bloomberg, OCBC Research

- **MAS** has maintained the rate of appreciation of the S$NEER policy band, with no change to the band width or the level at which it was centred, at the April meeting. The current monetary policy settings remain appropriate to restrain imported inflation as well as domestic cost pressures to ensure medium-term price stability. The monetary policy easing window is open for 2H24 but is data-dependent – if core CPI shows signs of subsiding earlier or more materially than anticipated, then July or October MPS may be fair game, but this is not our base scenario at this juncture. April would have been too premature to pull the easing trigger given that the

MAS view that core inflation will only step down from 4Q24 into 2025 remains intact. MAS repeated that both upside and downside inflation risks remain – shocks to global food and energy prices, or stronger-than-expected domestic labour demand could induce additional inflationary pressure, whereas an unexpected weakening of the global economy could result in a faster easing of cost and price pressures. Note that core inflation had ticked higher to 3.4%YoY in January-February from 3.3% in 4Q23, mainly attributable to the 1%-point GST hike and increases in essential services fees, whereas headline inflation had decelerated from 4.0% in 4Q23 to average 3.1%YoY in the first two months of this year due to the slower pace of increase in car prices and residential property rents amid the greater supply of COE quotas and completed housing units. Our current 2024 GDP growth forecast of "around 2%" may come in slightly higher at 2.3%YoY given the acceleration in 1Q24 growth and some anticipated firming in growth trajectory as the year progresses. Our 2024 headline and core inflation forecasts are 3.0% and 3.1%YoY respectively.

- **SGD rates.** In either a rising or a falling rates environment, SGD rates are likely to stay relatively more stable than USD rates. Before USD rates embark on a more sustained downtrend, and with the S$NEER slope staying positive, SGD-USD OIS spreads are likely to stay deeply negative. Our medium-term view remains for short-end SGD rates to underperform USD rates in a falling rates environment, thereby partially normalising rates differentials – this move may only gain momentum later in the year when the Fed starts its easing cycle, and even by then SGD rates underperformance may be mild if MAS maintains policy setting. We expect SGD rates to grind lower in a gradual manner over the course of the year.



Source: Bloomberg, OCBC research

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Rates Forecast

USD Interest Rates	Current	Q224	Q324	Q424	Q125
FFTR upper	5.50	5.50	5.00	4.75	4.50
SOFR	5.31	5.30	4.80	4.55	4.33
3M SOFR OIS	5.32	5.35	4.90	4.65	4.40
6M SOFR OIS	5.29	5.25	4.85	4.60	4.40
1Y SOFR OIS	5.18	5.05	4.60	4.35	4.23
2Y SOFR OIS	4.82	4.65	4.20	3.95	3.83
5Y SOFR OIS	4.32	4.25	3.95	3.75	3.68
10Y SOFR OIS	4.16	4.15	3.90	3.75	3.68
15Y SOFR OIS	4.14	4.15	3.95	3.80	3.73
20Y SOFR OIS	4.10	4.15	3.95	3.80	3.73
30Y SOFR OIS	3.89	3.95	3.80	3.70	3.63
2Y UST	4.90	4.70	4.30	4.05	3.90
5Y UST	4.57	4.40	4.10	3.95	3.90
10Y UST	4.54	4.35	4.10	4.05	4.00
30Y UST	4.65	4.50	4.20	4.15	4.10
SGD Interest Rates	**Current**	**Q224**	**Q324**	**Q424**	**Q125**
SORA	3.47	3.60	3.40	3.25	3.08
3M compounded SORA	3.64	3.55	3.52	3.34	3.18
3M SGD OIS	3.56	3.55	3.25	3.05	2.90
6M SGD OIS	3.54	3.55	3.30	3.10	2.95
1Y SGD OIS	3.45	3.40	3.10	2.90	2.85
2Y SGD OIS	3.32	3.25	3.00	2.80	2.73
3Y SGD OIS	3.26	3.23	2.98	2.80	2.73
5Y SGD OIS	3.23	3.20	2.95	2.80	2.73
10Y SGD OIS	3.20	3.20	3.05	2.95	2.88
15Y SGD OIS	3.15	3.15	3.00	2.90	2.88
20Y SGD OIS	2.98	2.90	2.85	2.80	2.75
2Y SGS	3.38	3.25	2.95	2.80	2.75
5Y SGS	3.25	3.15	2.95	2.85	2.85
10Y SGS	3.29	3.25	3.05	3.00	2.95
15Y SGS	3.22	3.20	3.00	2.95	2.95
20Y SGS	3.18	3.15	2.95	2.90	2.90
30Y SGS	3.13	3.10	3.00	3.00	3.00

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