GLOBAL MARKETS RESEARCH

Interest Rates Monthly

12 November 2024

Updated USD rates and SGD rates forecasts

- **USD rates**. In view of inflation impact of potential tariffs starting to emerge in the latter part of 2025, we have removed one 25bp rate cut that we previously expected for Q4-2025. We now expect one 25bp Fed funds rate cut each in December, January, March, Q2-2025 and Q3-2025, adding up to 100bps of cuts in 2025. We have a steepening bias on the UST curve.

- **SGD rates.** SGD OIS has further outperformed USD OIS as rates went higher. While SGD rates outperformance in an upward move is in line with historical pattern, the recent passthrough onto SGD rates was on the low end of ranges. This relative performance reflects the relatively stable nature of SGD rates, especially with the main drivers pushing up USD rates being idiosyncratic in nature. Next to watch is 2025 SGS calendar, which is expected to be announced within this month. Focus will be on MAS' intended growth in outstanding SGS, and the tenor breakdown.

- **GBP rates**. BoE estimated the impact of the Autumn Budget on inflation at 0.5 percentage point at the peak. A "gradual approach" to removing policy restraint remains appropriate. BoE stance is consistent with our view for a hold at the December meeting, and for one 25bp cut in each quarter in 2025. Notwithstanding the gradual rate cut pace, we maintain a steepening bias on the gilt curve on additional supply in the years ahead.

- **Updated forecasts**. We include an updated set of forecasts for UST yields, USD OIS, SGS yields and SGD OIS in this report.

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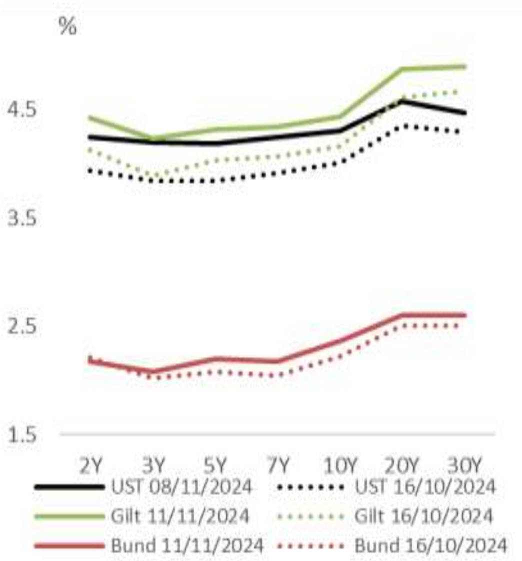
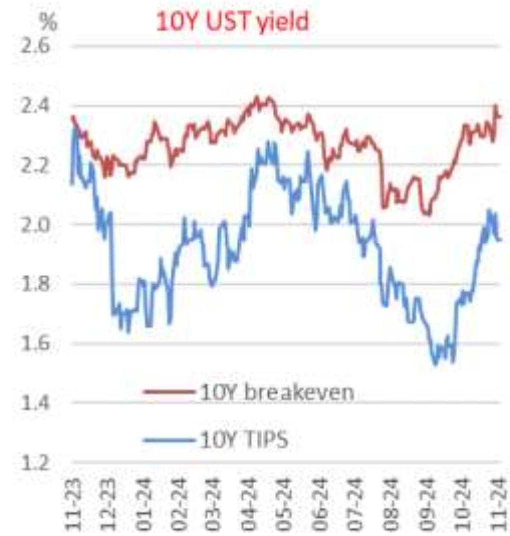
Global Markets Research and Strategy



Source: Bloomberg, OCBC Research

USD:

In view of inflation impact of potential tariffs starting to emerge in the latter part of 2025, we have removed one 25bp rate cut that we previously expected for Q4-2025. We **now expect one 25bp Fed funds rate cut each in December, January, March, Q2-2025 and Q3-2025, adding up to 100bps of cuts in 2025**. This expected profile will bring the Fed funds rate target range to 3.25-3.50% at end 2025. This will be consistent with the stance of bringing rates gradually down over time to a more neutral level.



Source: Bloomberg, OCBC Research

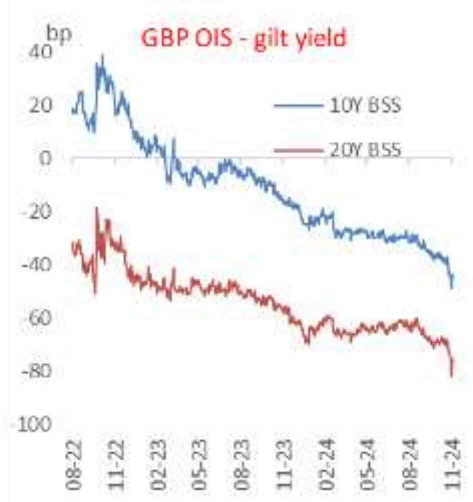
UST curve view. Curve steepening is our medium-term view. The UST curve flattened over recent days upon some unwinding of Trump trades. We had expected near-term flattening and after last Friday's move, we consider the near-term flattening that we had looked for was mostly done. Fed funds futures last priced 68% chance for a 25bp cut at the December FOMC meeting, and a total of 60bps of cuts in 2025. Room for further paring back of rate cuts expectation appear limited to us. At the longer end, the upticks in the 10Y UST yield since the recent low attained in mid-Octoer was primarily driven by higher rea yield (which accounted for around 70% of the move), but breakeven even also went up. 10Y real yield at 1.96% still appears somewhat high, while breakeven at 2.37% is fair but near the high end of range. There is no coupon bond auction this week (as opposed to last week's gross supply of USD125bn), and net bills settlement is at a normal USD31bn; this may set a constructive backdrop for a small downside to mid to long end yields. On balance, downside to long-end yields still look more limited to downside to short-end yields. Our curve steepening view shall be better reflected across the 2s10s and 2s30s segments.

Source: Bloomberg, OCBC Research *as of 24 Oct

November FOMC. FOMC decided to lower the target range for the Fed funds rate by 25bps at the 7 November FOMC meeting, to 4.50-4.75%. The decision was unanimous. USTs rallied during NY session on the day upon the FOMC rate cut decision, as Powell commented that the election will have no near-term effect on monetary policy decisions. The rhetoric was more dovish than market would have expected given the US election outcome. The November FOMC statement was similar to the September FOMC statement, with some differences as they described the labour market because of what had happened. The statement removed the phrase that the Committee "has gained greater confidence" that inflation is moving sustainably towards 2% - we do not interpret it as reflecting a change in the inflation outlook. The "has gained greater confidence" was in the September FOMC statement as it marked the start of the easing cycle.

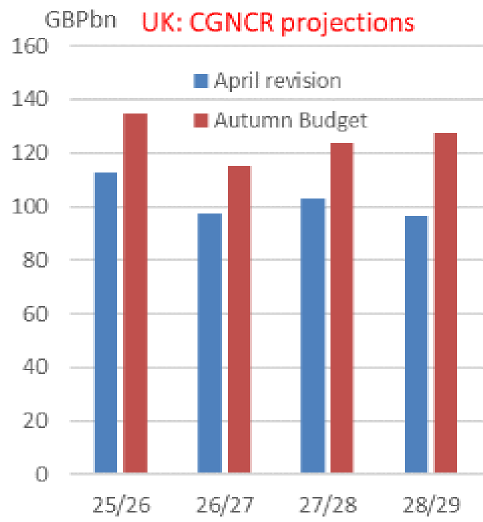
GBP:

BoE cut Bank Rate by 25bps to 4.75% in line with expectations. The vote was 8-1, with one member (Mann) preferring to keep the Bank Rate unchanged. MPC statement cited "continued progress in disinflation, particularly as previous external shocks have abated" as the reason. Looking ahead, BoE forecast CPI inflation to increase to around 2.5% by year-end, versus 1.7% in September due to the base effect on energy prices. The central bank estimated the impact of the Autumn Budget on inflation at 0.5 percentage point at the peak. A "gradual approach" to removing policy restraint remains appropriate. BoE stance is consistent with our view for a hold at the December meeting, and for one 25bp cut in each quarter in 2025. Notwithstanding the gradual rate cut pace, we maintain a steepening bias on the gilt curve on additional supply in the years ahead.



Source: Bloomberg, OCBC Research

Autumn Budget. Fiscal spending is budgeted to increase by GBP70bn a year over the next five years; half of the increase in spending is planned to be funded through an increase in tax and the rest through an increase in borrowing. The more expansionary Budget pushed up yields via two channels, namely higher supply and potentially higher inflation pressure. Bond/swap spreads (OIS – bond yield) have been tightening (more negative) steadily; while there may be some near-term consolidation, a quick reversal in the move is not in sight yet.



Source: UK DMO, OCBC Research

Interest rates forecasts	Q424	Q125	Q225	Q325	Q425
BoE Base Rate	4.75	4.50	4.25	4.00	3.75
GBP SONIA	4.70	4.45	4.20	3.95	3.70
3M GBP OIS SONIA	4.55	4.40	4.15	3.90	3.70

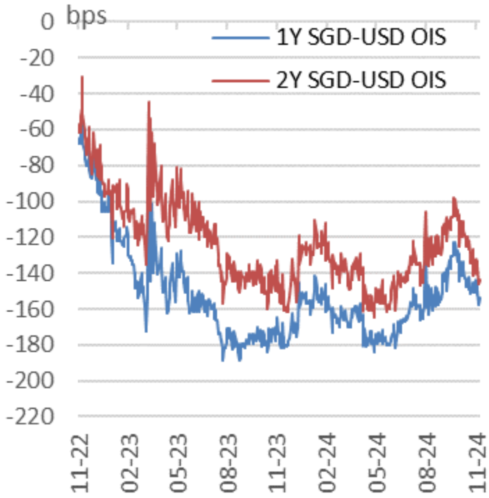
SGD:

SGD OIS has further outperformed USD OIS as rates went higher. While SGD rates outperformance in an upward move is in line with historical pattern, the recent passthrough onto SGD rates was on the low end of ranges. This relative performance reflects the relatively stable nature of SGD rates, especially with the main drivers pushing up USD rates being idiosyncratic in nature. From the recent lows in mid-October, the passthrough from USD OIS onto SGD OIS rates were below 40% across tenors of 2Y to 5Y, and around 40% at the 7Y and 10Y. As a result, SGD-USD rate spreads became more negative. Investors may need to be patient to reload pay short-end SGD rates versus receive short-end USD rates trades.

Source: Bloomberg, OCBC Research ^as of 11 November

Bond/swap spreads (SGD OIS – SGS yields) have been consolidating over the recent couple of weeks, after the earlier widening (as in becoming less negative). **Next to watch is 2025**

SGS calendar, which is expected to be announced within this month. Focus will be on MAS' intended growth in outstanding SGS, and the tenor breakdown. Outstanding SGS increased by 3.04% in 2024 (as of end October which shall represent the full year as there is no more SGS issuance or maturity for the rest of the year) which was at the low end. A 3-5% growth in outstanding SGS will translate into gross issuances of SGD25.3-28.7bn in 2025 – we will wait for MAS press release for any guidance. On the tenors, the external environment may be more constructive for short end bonds. As for T-bills supply, we suspect the sizes will be reduced from this year's high levels. While we expect a constructive environment for short end bonds in general, due to the broader base of investors in the T-bills market, when rates are at lower levels, some retail demand may subside as the benchmarks they use for comparison are not necessarily fast-moving market rates.



Source: Bloomberg, OCBC Research

Rates Forecast

USD Interest Rates	Q424	Q125	Q225	Q325	Q425
FFTR upper	4.50	4.00	3.75	3.50	3.50
SOFR	4.32	3.82	3.57	3.34	3.34
3M SOFR OIS	4.25	3.80	3.65	3.45	3.45
6M SOFR OIS	4.15	3.70	3.65	3.45	3.45
1Y SOFR OIS	3.85	3.50	3.45	3.40	3.40
2Y SOFR OIS	3.75	3.50	3.45	3.40	3.40
5Y SOFR OIS	3.70	3.45	3.45	3.45	3.45
10Y SOFR OIS	3.75	3.55	3.55	3.55	3.55
15Y SOFR OIS	3.80	3.60	3.60	3.60	3.60
20Y SOFR OIS	3.82	3.65	3.65	3.67	3.62
30Y SOFR OIS	3.82	3.68	3.68	3.70	3.65
SGD Interest Rates	**Q424**	**Q125**	**Q225**	**Q325**	**Q425**
SORA	3.15	2.90	2.78	2.65	2.50
3M compounded SORA	3.30	3.05	2.85	2.70	2.58
3M SGD OIS	2.75	2.65	2.50	2.45	2.45
6M SGD OIS	2.65	2.60	2.50	2.45	2.45
1Y SGD OIS	2.60	2.50	2.45	2.45	2.45
2Y SGD OIS	2.50	2.45	2.45	2.45	2.45
3Y SGD OIS	2.50	2.45	2.40	2.40	2.40
5Y SGD OIS	2.55	2.50	2.45	2.45	2.45
10Y SGD OIS	2.60	2.55	2.60	2.60	2.55
15Y SGD OIS	2.60	2.60	2.60	2.60	2.60
20Y SGD OIS	2.55	2.55	2.60	2.60	2.60
UST yields	**Q424**	**Q125**	**Q225**	**Q325**	**Q425**
2Y UST	4.00	3.75	3.65	3.60	3.60
5Y UST	3.95	3.75	3.70	3.70	3.70
10Y UST	4.20	4.10	4.05	4.00	4.00
30Y UST	4.35	4.25	4.20	4.20	4.20
SGS yields	**Q424**	**Q125**	**Q225**	**Q325**	**Q425**
2Y SGS	2.55	2.45	2.40	2.40	2.40
5Y SGS	2.55	2.45	2.40	2.40	2.40
10Y SGS	2.65	2.60	2.60	2.55	2.55
15Y SGS	2.70	2.65	2.65	2.60	2.60
20Y SGS	2.70	2.65	2.65	2.65	2.65
30Y SGS	2.70	2.70	2.70	2.70	2.70

Source: OCBC Research (Latest Forecast Update: 12th November 2024)

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