

Interest Rates Turning The Corner

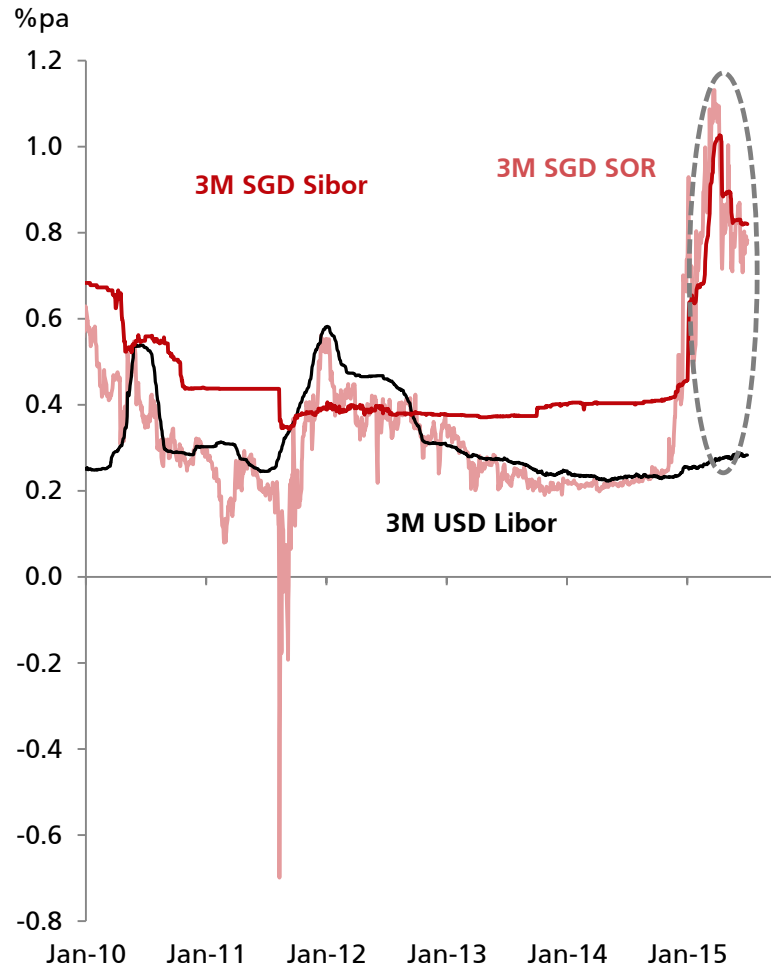
Eugene Leow / Fixed Income Strategist
10 July 2015

Which questions matter?

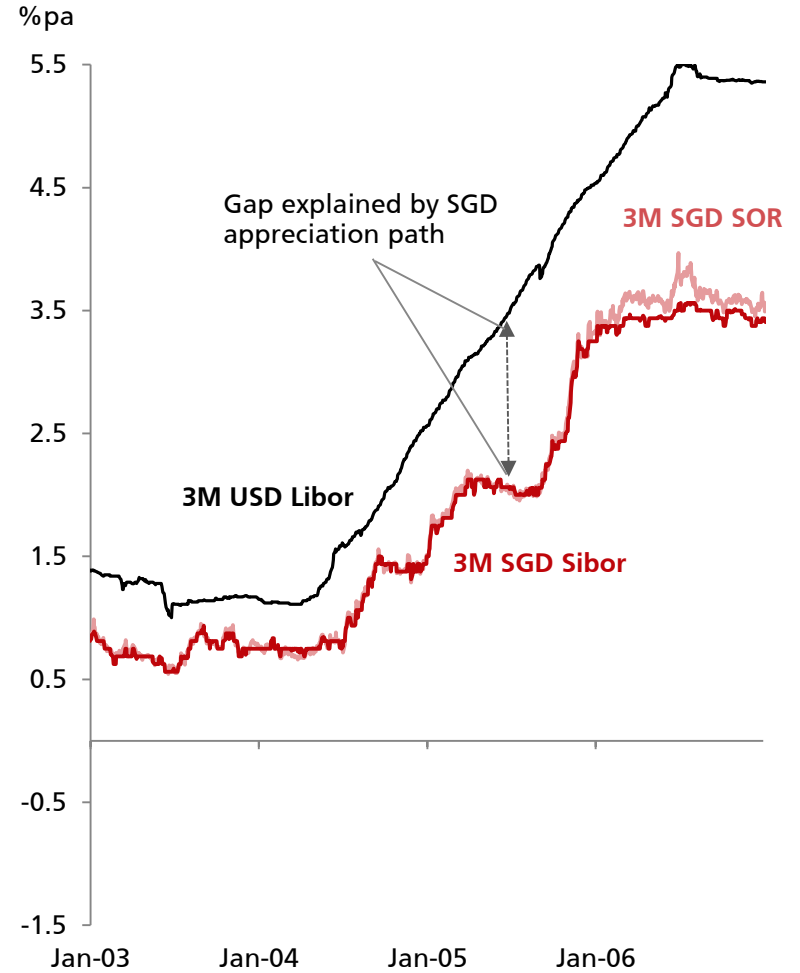
- **When are short term interest rates going to rise?**
- **Where are long-term interest rates now?**
- **How high are USD, SGD rates going to go?**
- **Are the markets anticipating this?**

SGD & USD Rates

3M SGD SOR & 3M SGD Sibor vs 3M USD Libor.
Short-term SGD rates are at a premium

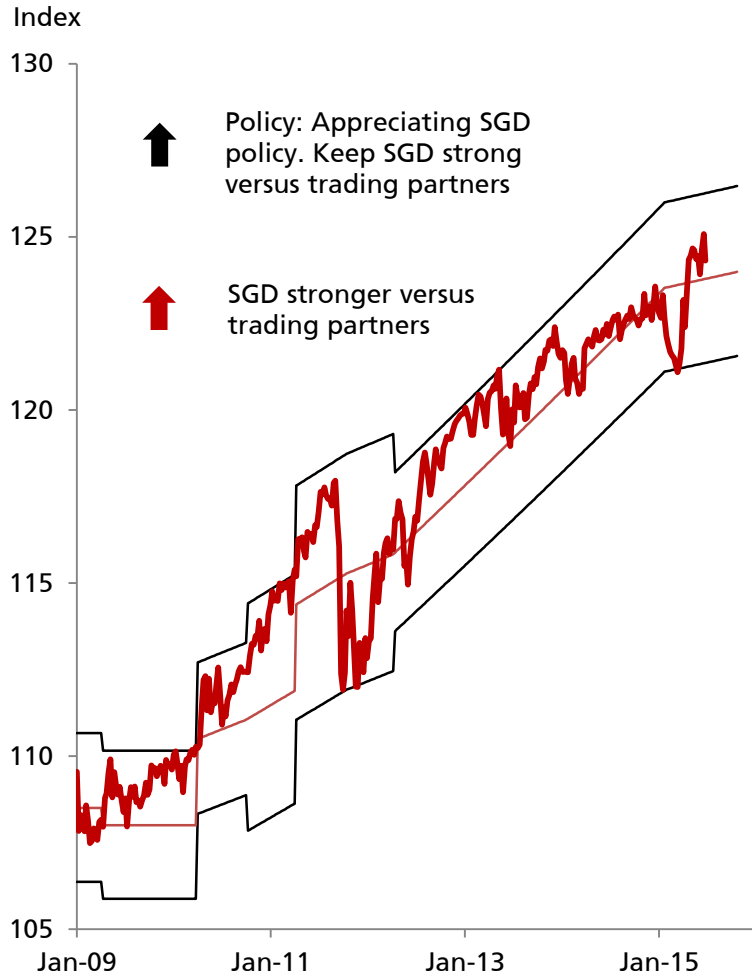


3M SGD SOR & 3M SGD Sibor tracked closely together during the past Fed hike cycle.

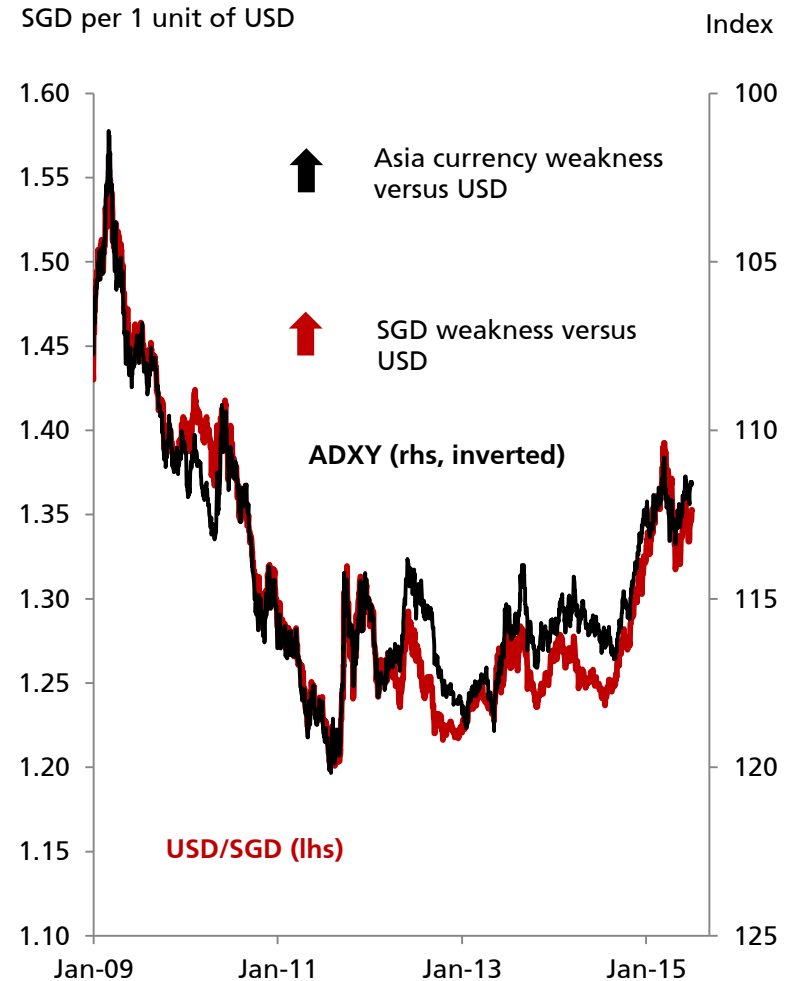


The FX Component of SGD Rates

SGD NEER and Policy Band



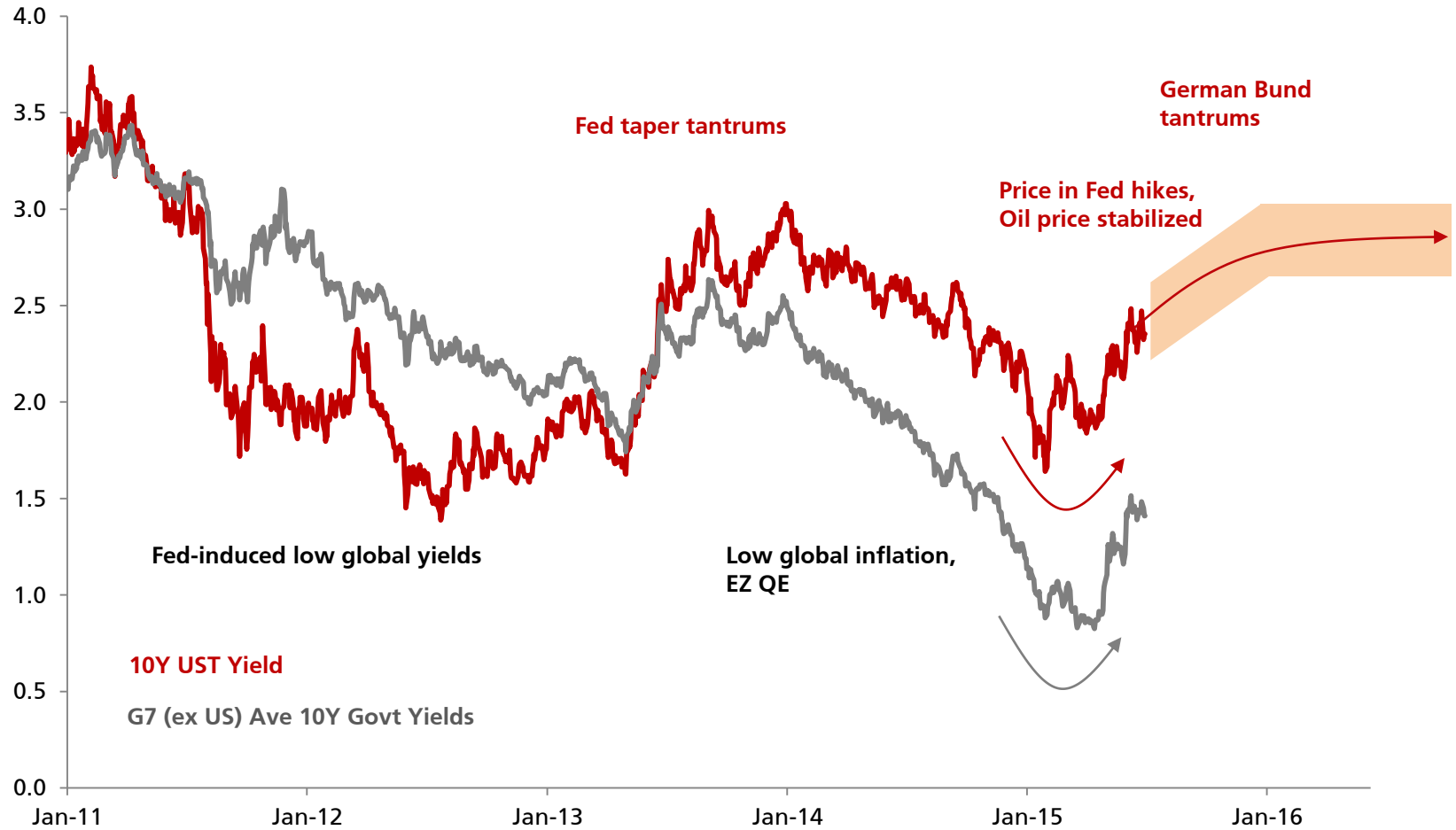
SGD has to follow Asian currencies



The Turning Point Has Occurred

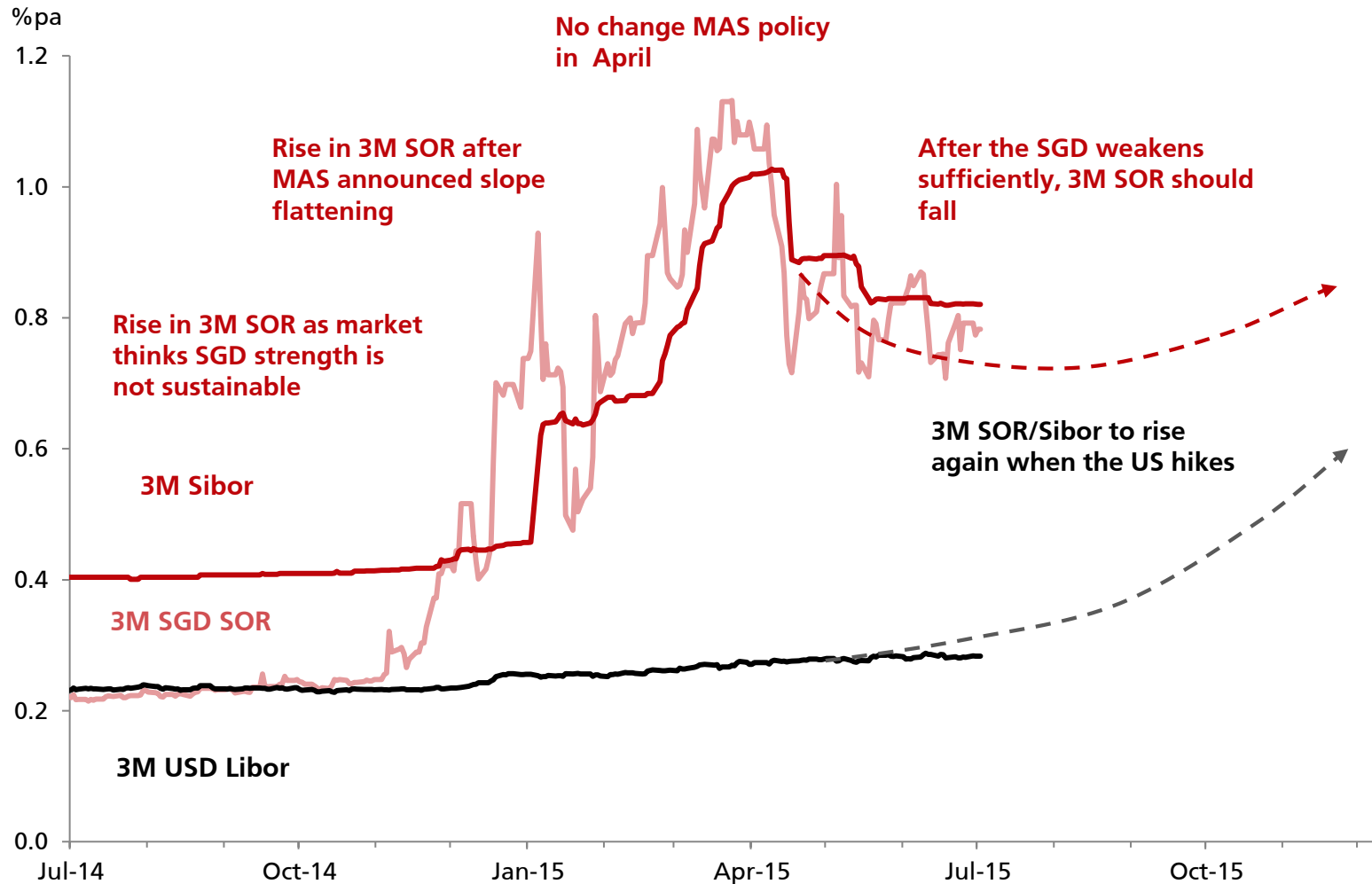
10Y Government Bond Yields

% pa



SGD & USD Rates

3M SGD SOR & 3M Sibor vs 3M USD Libor. The sequence of events.



Takeaways

- **When are short term interest rates going to rise?**
- **ST USD rates have not risen while ST SGD rates already moved. More is to come when the Fed hikes**
- **Where are long-term interest rates now?**
- **A turnaround has occurred and LT rates are rising**
- **How high are USD, SGD rates going to go?**
- **If USD rates head into the 2.5-3.0% range, SGD rates are likely to follow**
- **Are the markets anticipating this?**
- **Interest rates are not sufficiently reflecting Fed normalization**

Thank You

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Interest Rate Outlook

	End	Fed Funds	1m Libor	3m Libor	6m Libor	12m Libor	UST 2Y	UST 5Y	UST 10Y
	10-Jun-15	0.25	0.19	0.29	0.44	0.77	0.73	1.77	2.48
Forecast	3Q15	0.25	0.30	0.40	0.80	1.00	0.90	1.81	2.40
	4Q15	0.50	0.60	0.70	0.90	1.10	1.15	2.07	2.60
	1Q16	0.75	0.85	0.95	1.15	1.35	1.40	2.27	2.70
	2Q16	1.00	1.10	1.20	1.40	1.60	1.60	2.40	2.80

	End	Fed Funds	3m Libor	USD IRS 1Y	USD IRS 2Y	USD IRS 3Y	USD IRS 5Y	USD IRS 10Y
	10-Jun-15	0.25	0.29	0.56	0.99	1.36	1.90	2.55
Forecast	3Q15	0.25	0.40	0.75	1.10	1.53	1.96	2.55
	4Q15	0.50	0.70	1.00	1.35	1.79	2.22	2.75
	1Q16	0.75	0.95	1.25	1.60	2.01	2.42	2.85
	2Q16	1.00	1.20	1.45	1.80	2.18	2.55	2.95

	End	Fed Funds	1m Sibor	3m Sibor	6m Sibor	SGS 2Y	SGS 5Y	SGS 10Y
	10-Jun-15	0.25	0.71	0.83	0.89	1.09	1.95	2.77
Forecast	3Q15	0.25	0.80	0.90	1.00	1.10	1.86	2.70
	4Q15	0.50	0.90	1.00	1.05	1.30	2.12	2.80
	1Q16	0.75	1.05	1.15	1.25	1.50	2.32	2.85
	2Q16	1.00	1.20	1.25	1.55	1.70	2.45	2.85

	End	1M SOR	3m SOR	6m SOR	SGD IRS 1Y	SGD IRS 2Y	SGD IRS 3Y	SGD IRS 5Y	SGD IRS 10Y
	10-Jun-15	0.70	0.82	0.99	1.11	1.48	1.81	2.29	2.89
Forecast	3Q15	0.80	0.90	1.00	1.20	1.40	1.80	2.21	2.95
	4Q15	0.90	1.00	1.05	1.30	1.55	1.94	2.32	3.00
	1Q16	1.05	1.15	1.25	1.48	1.70	2.09	2.47	3.05
	2Q16	1.20	1.25	1.55	1.70	1.85	2.23	2.60	3.05

Dated: 11 June 2015