

**Eugene Leow**  
Rates Strategist



Please direct distribution queries to Violet Lee +65 68785281  
[violetleeyh@db.com](mailto:violetleeyh@db.com)

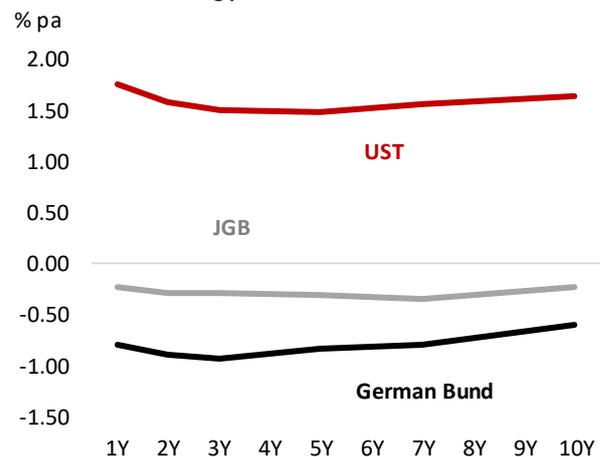
- *Competitive easing amidst a slow global growth backdrop reinforces the lower for (even) longer narrative*
- *However, we are reluctant to chase already low G3 rates and prefer to stay neutral on duration*
- **Implications for forecast:** *We have re-centered our G3 rates forecasts lower to reflect heightened near-term uncertainties*
- **Implications for investment:** *Opportunistically taking duration risks may be the best way to handle already depressed G3 yields*

#### G3 rates: Safety first

**Flight to safety amidst a highly uncertain outlook will keep G3 yields lower for longer.**

The list of worries has increased in recent months as investors now have to deal with the re-escalation of China-US trade war (after a brief truce), the risks of a hard Brexit, EM stress (largely Argentina) and political uncertainties in Hong Kong. G10 central banks, which are already facing growth moderation, now have to contend with these ongoing headwinds. **It is not possible to insure against trade war (or political risks) by easing monetary policy. However, central banks will try to limit the fallout by making financial conditions even looser.** Unfortunately, lower rates (or dovish guidance) from any of the G3 central banks tend to have knock-on impact unto other developed market rates as **competitive easing gets triggered.** With these dynamics reinforcing the lower for longer narrative, **we have re-centered our G3 yields forecasts lower. SGD and HKD rates have also been tweaked accordingly.**

G3 curves: Reflecting pessimism

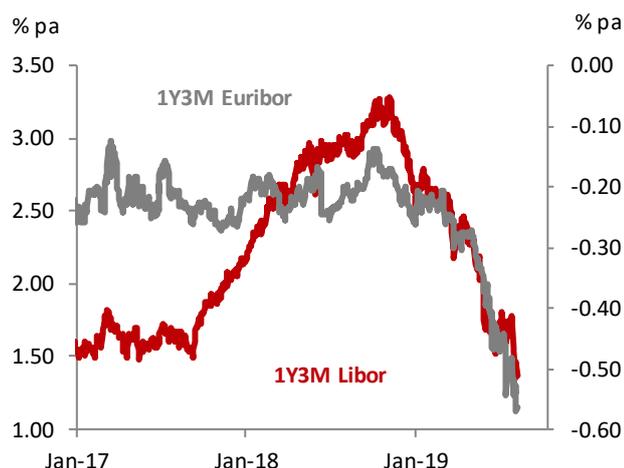


Source: Bloomberg

### The Fed and ECB U-turn

Over the course of a year, the Fed and the European Central Bank (ECB) both U-turned (or are about to) on policy. The Fed delivered the first cut in a decade last month and will likely deliver more if financial conditions tighten or trade tensions worsen. Firm US data does not seem to matter at this time as the market focused on downside risks. Urgency for the Fed to deliver more “insurance cuts” is building after the recent tit-for-tat measures between China and the US (see Macro Strategy, 6<sup>th</sup> August 2019). US equity markets also had a more serious wobble when the RMB crossed 7 versus the USD and the US named China a currency manipulator. **Trump may not have direct influence over the Fed. But by ratcheting up trade war rhetoric, the resulting uncertainty would prompt more “insurance cuts.”**

Market factoring in aggressive easing for the Fed and ECB



Source: Bloomberg

**The ECB arguably faces greater urgency to ease policy.** Aside from an extended period of weak data, inflation expectations (as measured by the EUR 5Y5Y inflation swap) also collapsed to an all-time low in June. Hints of upcoming asset purchases and rate cuts did not manage to lift this estimate much. **The downward distortion**

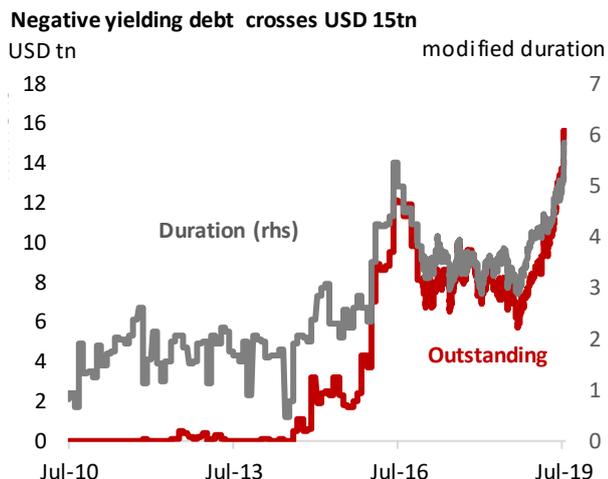
**to EUR rates is acute amid a shortage of German papers and the prospect of the ECB looking to take even more supply off the table** supports the case for an extended period of depressed EUR interest rates. Fear of missing out at a time when the total amount of negative yielding debt exceeds USD 15tn is prompting a desperate search for yield in the developed market space. **USTs still offer very attractive relative and absolute yields despite the sizable rally over the past year.**

AAA-rated economies plus US	10Y Yields
Singapore	1.65
United States	1.52
Canada	1.09
Norway	1.02
Australia	0.86
Sweden	-0.41
Luxembourg	-0.45
Netherlands	-0.60
Denmark	-0.67
Germany	-0.71
Switzerland	-1.12

Source: Bloomberg, DBS

**Competitive easing across the G10 space may be difficult to avoid.** Looser monetary policy stances from the Fed and ECB have already dragged interest rates in the developed world lower. In any case, G10 interest rates tend to be highly correlated and we suspect that each central bank would face the risk that its currency would become inordinately strong if its interest rates become relatively high. Within the G10 space, “high” USD rates have supported the USD. **The Bank of Japan (BOJ) faces similar pressures** when the yen touched 106 (from 112 in April) versus USD even as 10Y JGB yields crashed below the bottom of the -0.2 to 0.2% policy range. Pressure to embark on deeper negative rates will mount. **This feedback loop of seemingly coordinated monetary policy across the G10 space may take some time to play out** and may well result

in even lower yields from already depressed levels currently. **Lower for (even) longer is the theme.**



Source: Bloomberg, CEIC, DBS

**It would probably take a spike in inflation expectations and / or fiscal stimulus from the large economies to arrest the fall in DM yields.** The previous global adjustment took place in late-2016 when Trump won the presidential elections. With the market correctly anticipating that Trump’s presidency will widen the US’s fiscal deficit, yields adjusted higher. We think it may be more difficult for the US to repeat this feat. It would probably require the Europeans (especially the surplus economies) to embark on large scale fiscal spending to increase the supply of government papers sufficiently to nudge European government bond (EGB) yields higher. Otherwise, the default would be a grind lower in yields as ECB purchases dominate. Lastly, a cyclical rebound or a thaw in China-US trade tensions could result in a bounce in yields. However, better data appears to be elusive amid an escalation in the trade war.

Interest rate forecasts		end-2019	end-2020
US	3m Libor	2.10	2.10
	2Y	1.65	1.85
	10Y	1.75	2.20
	10Y-2Y	10	35
Eurozone	3m Euribor	-0.40	-0.40
	2Y	-0.80	-0.50
	10Y	-0.50	-0.20
	10Y-2Y	30	30
Japan	3m Tibor	0.05	0.05
	2Y	-0.20	-0.13
	10Y	-0.20	-0.10
	10Y-2Y	0	3
Singapore	3m Sibor	1.60	1.60
	2Y	1.65	1.65
	10Y	1.70	2.00
	10Y-2Y	5	35
Hong Kong	3m Hibor	1.80	1.80
	2Y	1.80	1.80
	10Y	1.55	2.00
	10Y-2Y	-25	20

Source: DBS

**Recent pieces:**

- [Chart of the Week: Trade war’s impact on foreign and Chinese firms](#)
- [Japan-South Korea trade fight a lose-lose scenario](#)
- [India: Rates pricing in cuts, FX vulnerable to global cues](#)
- [Taiwan: Trade war, tourism ban and the rise of MIT](#)
- [Philippines: Expecting another 50bps of rate cut this year](#)
- [India: RBI breaks from convention, cuts by 35bps](#)

## Group Research

### Economics & Strategy

**Taimur Baig, Ph.D.**

Chief Economist - G3 &amp; Asia

+65 6878-9548 [taimurbaig@db.com](mailto:taimurbaig@db.com)**Chang Wei Liang**

Strategist

+65 6878-2072 [weiliangchang@db.com](mailto:weiliangchang@db.com)**Nathan Chow**

Strategist - China &amp; Hong Kong

+852 3668-5693 [nathanchow@db.com](mailto:nathanchow@db.com)**Masyita Crystallin, Ph.D.**

Economist – Indonesia &amp; Philippines

+62 21 2988-4003 [masyita@db.com](mailto:masyita@db.com)**Joanne Goh**

Regional equity strategist

+65 6878-5233 [joannegohsc@db.com](mailto:joannegohsc@db.com)**Eugene Leow**

Rates Strategist - G3 &amp; Asia

+65 6878-2842 [eugeneleow@db.com](mailto:eugeneleow@db.com)**Chris Leung**

Economist - China &amp; Hong Kong

+852 3668-5694 [chrisleung@db.com](mailto:chrisleung@db.com)**Ma Tieying**

Economist - Japan, South Korea, &amp; Taiwan

+65 6878-2408 [matieying@db.com](mailto:matieying@db.com)**Radhika Rao**

Economist - Eurozone &amp; India

+65 6878-5282 [radhikarao@db.com](mailto:radhikarao@db.com)**Irvin Seah**

Economist - Singapore, Malaysia, &amp; Vietnam

+65 6878-6727 [irvinseah@db.com](mailto:irvinseah@db.com)**Duncan Tan**

FX and Rates Strategist - ASEAN

+65 6878-2140 [duncantan@db.com](mailto:duncantan@db.com)**Samuel Tse**

Economist - China &amp; Hong Kong

+852 3668 5695 [samueltse@db.com](mailto:samueltse@db.com)**Philip Wee**

FX Strategist - G3 &amp; Asia

+65 6878-4033 [philipwee@db.com](mailto:philipwee@db.com)

**Sources:** Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

**Disclaimer:**

The information herein is published by DBS Bank Ltd and PT Bank DBS Indonesia (collectively, the "DBS Group"). It is based on information obtained from sources believed to be reliable, but the Group does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation & the particular needs of any specific addressee. The information herein is published for the information of addressees only & is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Group, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Group or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Group & its associates, their directors, officers and/or employees may have positions or other interests in, & may effect transactions in securities mentioned herein & may also perform or seek to perform broking, investment banking & other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Sources for all charts & tables are CEIC & Bloomberg unless otherwise specified.

DBS Bank Ltd., 12 Marina Blvd, Marina Bay Financial Center Tower 3, Singapore 018982. Tel: 65-6878-8888. Company Registration No. 196800306E.  
PT Bank DBS Indonesia, DBS Bank Tower, 33<sup>rd</sup> floor, Ciputra World 1, Jalan Prof. Dr. Satrio Kav 3-5, Jakarta, 12940, Indonesia. Tel: 62-21-2988-4000.  
Company Registration No. 09.03.1.64.96422.