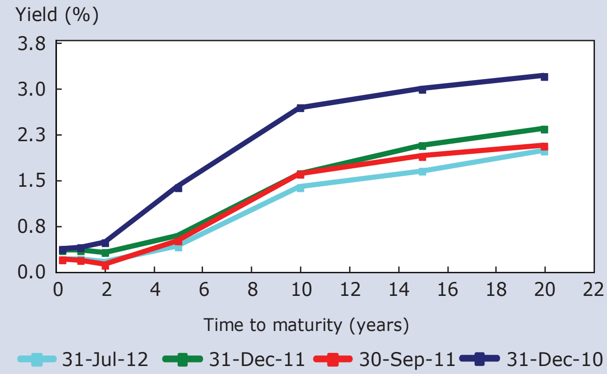
Singapore—Update

Yield Movements

The yield curve for local currency (LCY) government bonds in Singapore fell across all maturities between end-December 2011 and end-July 2012. As consumer price inflation eased slightly during the first half of the year, yields fell for all tenors **(Figure 1)**. Yields fell between 14 basis points (bps) and 17 bps at the very short-end and the belly of the curve. Meanwhile, yields for the 10-, 15-, and 20-year maturities fell by 23 bps, 42 bps, and 36 bps, respectively. The yield curve flattened slightly in July, with the spread between the 2- and 10-year maturities falling to 122 bps at end-July from 129 bps at end-December.

Figure 1: Singapore's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation during the first 6 months of the year was 5.1% year-on-year (y-o-y), slightly lower than the 5.2% posted for the full-year 2011. At the start of 2012, Singapore's consumer price inflation eased to 4.8% and 4.6% y-o-y in January and February, respectively. It subsequently rose to 5.2% in March and 5.4% in April before easing to 5.0% in May. In June, consumer price inflation rose to 5.3%, mainly due to higher housing costs.

In April, the Monetary Authority of Singapore (MAS) said that external inflationary pressures will likely persist due to higher oil prices. MAS announced that it will (i) continue with its policy of a modest and gradual appreciation of the Singapore dollar, (ii) slightly increase the slope of the policy band of the nominal effective exchange rate (S$NEER), and (iii) restore a narrower policy band. More recently, MAS revised its consumer price inflation forecast for 2012 to 4.0%–4.5% from 3.5%–4.5%, on expectations that costs for housing rentals and certificate of entitlement (COE) premiums will remain high. In July, MAS announced to Parliament that it is considering issuing inflation-linked bonds as one measure to ease the burden of inflationary pressures on investors. The possible issuance of inflation-linked bonds is expected to help retail investors preserve their savings in light of prevailing interest rates that are near zero.

Singapore's gross domestic product (GDP) registered 2.0% y-o-y growth in 2Q12, higher than the 1.5% growth posted in 1Q12. The manufacturing sector grew 4.5% y-o-y in 2Q12 after contracting 0.8% in 1Q12. The construction sector expanded 5.3% and the services sector grew 0.8% in 2Q12. On a quarter-on-quarter (q-o-q) seasonally-adjusted and annualized basis, however, Singapore's GDP fell 0.7% in 2Q12, largely due to declines in electronics manufacturing, wholesale trade, and tourism-related services.

Singapore's Ministry of Trade and Industry (MTI) narrowed its 2012 GDP growth forecast from 1.0%–3.0% to 1.5%–2.5%, as the slowdown in advanced economies is expected to affect externally-oriented sectors. Global uncertainties are also expected to affect sentiment-sensitive segments within the finance and insurance sectors. Expansion in the transport engineering and construction sectors, however, may provide modest support to Singapore's economy.

Table 1. Size and Composition of the LCY Bond Market in Singapore

	Amount (billion)								**Growth Rate** (%)						
	Mar-12		**Apr-12**		**May-12**		**Jun-12**		**Mar-12**		**Apr-12**	**May-12**	**Jun-12**		
	SGD	**US$**	**SGD**	**US$**	**SGD**	**US$**	**SGD**	**US$**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	266	211	266	215	268	208	274	217	19.5	8.2	(0.1)	0.9	15.8	3.2	2.3
Government	162	129	159	129	161	125	164	130	21.4	5.4	(1.5)	1.1	14.1	1.5	1.9
Central Gov't Bonds and Bills	144	114	141	114	142	110	144	114	7.9	3.8	(2.1)	0.5	3.8	0.0	1.6
Central Bank Bills	18	14	19	15	20	15	20	16	–	20.0	3.3	5.4	277.8	13.3	4.1
Corporate	104	83	106	86	107	83	110	87	16.7	12.9	2.1	0.7	18.3	5.8	2.9

– = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
2. Government bonds and bills does not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Size and Composition

LCY bonds outstanding continued to post double-digit growth in 2Q12, expanding 15.8% y-o-y to SGD274.2 billion (US$216.7 billion) at end-June **(Table 1)**. LCY government bonds outstanding rose 14.1% y-o-y in 2Q12, but this was largely due to outstanding MAS bills, which stood at SGD20.4 billion at end-June, almost four times the SGD5.4 billion outstanding at end-June 2011. Meanwhile, outstanding Singapore Government Securities (SGS) bills and bonds rose 3.8% y-o-y and were flat on a q-o-q basis at SGD143.8 billion.

Issuance of SGS bonds dropped 30.8% y-o-y and 30.8% q-o-q in 2Q12. During the first half of the year, SGS bond issuance was 12.9% lower than during the same period last year. On the other hand, issuance of SGS bills rose 10.6% y-o-y and 15.4% q-o-q in 2Q12. Meanwhile, issuance of MAS bills rose 342.3% y-o-y and 11.0% q-o-q.

Outstanding LCY corporate bonds continued to post robust growth in 2Q12, rising 18.3% y-o-y to SGD110 billion at end-June, after posting 16.7% growth in 1Q12. On a q-o-q basis, outstanding LCY corporate bonds rose 5.8% in 2Q12.

The first half of 2012 saw several issuances of perpetual LCY corporate bonds. In 1Q12, four corporates issued such bonds: (i) Genting Singapore (SGD1.8 billion), (ii) Mapletree Logistics (SGD350 million), (iii) Singapore Post (SGD350 million), and (iv) Olam International (SGD275 million). In 2Q12, Genting Singapore issued another SGD500 million worth of perpetual bonds, while Ascendas and Hotel Properties sold SGD300 million and SGD150 million of perpetual bonds, respectively.

The top 30 corporate issuers in Singapore, which mainly come from the financial and consumer sectors, accounted for 52.2% of total LCY corporate bonds outstanding at end-June **(Table 2)**. The Housing and Development Board remained the biggest issuer with SGD11.5 billion of outstanding bonds at the end of 2Q12, followed by CapitaLand and DBS Bank with outstanding amounts of SGD4.9 billion and SGD4 billion, respectively.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)				
1. Housing and Development Board	11.5	9.1	Yes	No	No	Financial
2. CapitaLand	4.9	3.9	No	Yes	Yes	Financial
3. DBS Bank Singapore	4.0	3.2	No	Yes	Yes	Financial
4. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
5. United Overseas Bank	3.3	2.6	No	Yes	Yes	Financial
6. Genting Singapore PLC	2.3	1.8	No	Yes	No	Industrial
7. Land Transport Authority	2.3	1.8	Yes	No	No	Industrial
8. Public Utilities Board	2.1	1.7	Yes	No	No	Utilities
9. Land Transport Authority	2.1	1.9	Yes	No	No	Industrial
10. Oversea-Chinese Bank	2.0	1.6	No	Yes	Yes	Financial
11. GLL IHT PTE	1.4	1.1	No	Yes	No	Financial
12. Keppel Land	1.4	1.1	No	Yes	Yes	Financial
13. Temasek Financial III	1.3	1.0	No	Yes	No	Financial
14. Keppel Corp	1.2	0.9	No	Yes	Yes	Industrial
15. Overseas Union Enterprise	1.1	0.9	No	Yes	Yes	Consumer
16. City Developments	1.1	0.9	No	Yes	Yes	Consumer
17. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
18. Neptune Orient Lines	1.0	0.8	No	Yes	Yes	Industrial
19. F&N Treasury	1.0	0.8	No	Yes	No	Financial
20. Hyflux	0.9	0.7	No	Yes	Yes	Industrial
21. Capitamall Trust	0.9	0.7	No	Yes	Yes	Financial
22. Olam International	0.9	0.7	No	Yes	Yes	Consumer
23. Capitaland Treasury	0.9	0.7	No	Yes	No	Financial
24. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
25. Singapore Post	0.9	0.7	Yes	No	No	Industrial
26. Singapore Airlines	0.8	0.6	No	Yes	No	Communications
27. Global Logistic Properties	0.8	0.6	No	Yes	Yes	Diversified
28. Mapletree Treasury	0.7	0.6	No	Yes	No	Diversified
29. Capitaland Treasury	0.7	0.6	No	Yes	No	Financial
30. Sembcorp Financial Services	0.7	0.6	No	Yes	No	Industrial
Total Top 30 LCY Corporate Issuers	**57.4**	**45.4**				
Total LCY Corporate Bonds	**110.0**	**86.9**				
Top 30 as % of Total LCY Corporate Bonds	**52.2%**	**52.2%**				

LCY = local currency.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS Announces Initiatives to Develop Singapore's Capital Markets

In March, MAS Managing Director Ravi Menon announced three initiatives to improve efficiency and liquidity in Singapore's LCY debt market:

(i) Provide swap liquidity to primary dealer banks handling SGD-denominated debt issuances for foreign companies. MAS will support swap transactions at market-determined prices to facilitate swap market liquidity among the longer-dated tenors.

(ii) Partner with the industry in the creation of a lending platform for SGD-denominated corporate debt securities on which market players will be allowed to borrow securities for market-making.

(iii) Initiate a price discovery platform that will be targeted for completion by the second half of the year. This platform, which aims to improve transparency in the corporate bond market and provide reliable mark-to-market prices, will allow market participants to contribute end-of-day prices for a universe of SGD-denominated corporate bonds.

SGX Introduces Dual Currency Trading

In March, Singapore Exchange (SGX) introduced dual currency trading that enables the trading of listed securities in two different currencies. Dual-currency listed shares will be consolidated in investors' central depository accounts. The introduction of dual currency trading is aimed at improving cost efficiency by allowing investors to trade foreign currency-denominated securities in their respective LCY.

MAS Revises Requirements Governing Marketing and Sale of Listed and Unlisted Investment Products

In May, MAS announced that effective 1 October the prescribed list of Excluded Investment Products (EIPs) would be revised to include EIP-equivalent investment products listed on foreign exchanges, certain Collective Investment Schemes (CIS), and sub-funds of investment-linked life insurance policies. Currently, all CIS are classified as Special Investment Products (SIPs). By October, MAS will classify a CIS as an EIP if its investment mandate (i) permits investments only in EIPs and (ii) prohibits it from engaging in securities lending or repurchase transactions.

SGX Ready to Trade Renminbi-Denominated Securities

In July, SGX announced that it was ready to list, quote, trade, clear, and settle renminbi-denominated securities, which will complement the offshore renminbi bonds listed on the exchange. Also, SGX is the first exchange to offer the clearing of over-the-counter (OTC) foreign exchange forwards for renminbi. Issuers listing renminbi-denominated securities on SGX can also choose to offer dual-currency trading. This would allow investors the flexibility to trade the securities in either renminbi or Singapore dollars.

MAS Sets Up Contingent Liquidity Facility

MAS announced in its annual report released last July that it has entered into an agreement with the Singapore Deposit Insurance Corporation Limited (SDIC) through which MAS will offer a contingent liquidity facility of up to SGD20 billion in the event of a banking crisis. The agreement was signed in February; as of 31 March, no request had been made on the facility.