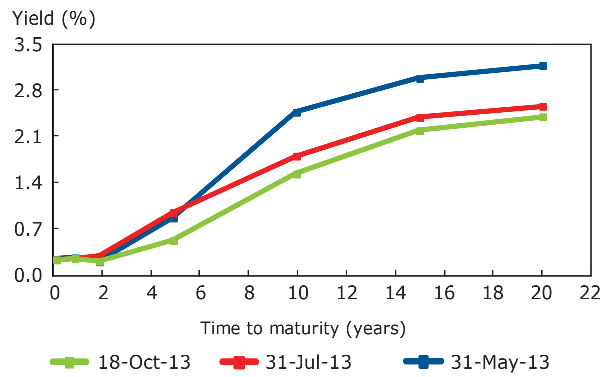
Singapore

Yield Movements

Between end-July and 18 October, the yield curve for Singapore's local currency (LCY) government bonds rose slightly at the shorter-end and fell at the longer-end of the curve, resulting in a flattening of the yield curve **(Figure 1)**. Yields rose between 1 basis point (bp) and 14 bps for 3-month to 2-year tenors, while yields fell between 6 bps and 26 bps for 10- to 20-year tenors. The yield spread between 2- and 10-year tenors narrowed from 225 bps at end-July to 185 bps on 18 October. However, between end-May and end-July, the yield curve steepened as a result of a significant rise at the longer-end of the curve, with yields rising between 59 bps and 66 bps for 10- to 20-year tenors, which was partly attributed to the announced tapering of the United States (US) Federal Reserve's bond-buying program in June.

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



LCY = local currency.
Source: Bloomberg LP.

On 14 October, the Monetary Authority of Singapore (MAS) announced that it will maintain its policy of a modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (NEER) policy band, with no change to the slope of the policy band or the level at which it is centered. The present width of the band is deemed sufficient to accommodate temporary fluctuations in the Singapore dollar NEER. This policy stance is assessed to be appropriate, taking into account the balance of risks between external demand uncertainties and rising domestic inflationary pressures. In the same statement, MAS also said that core inflation is expected to range between 1.5% and 2.0% in 2013, and rise to between 2.0% and 3.0% in 2014.

Consumer price inflation in Singapore eased to 1.6% year-on-year (y-o-y) in September from 2.0% in August. The easing came largely on the back of private road transport costs, which fell 2.0% y-o-y in September after posting a mild 0.1% increase in August. Accommodation costs climbed 3.9% y-o-y, compared with a 4.2% rise in August, mainly reflecting a smaller increase in market rentals for both private and Housing and Development Board (HDB) properties. Food prices rose 2.4% y-o-y in September, the same pace as in the previous month. On a month-on-month (m-o-m) basis, consumer price inflation increased 0.1% in September after recording a 0.8% rise in August.

According to advance estimates released by the Ministry of Trade and Industry (MTI), Singapore's economy expanded 5.1% y-o-y in 3Q13, compared with 4.2% in the previous quarter. In 3Q13, growth in the construction sector moderated to 3.6% y-o-y from 6.9% in 2Q13, while the services sector expanded at a similar pace of 5.7% y-o-y from 5.6% in the previous quarter. The manufacturing sector expanded 4.5% y-o-y in 3Q13 after expanding 1.3% in 2Q13. On a quarter-on-quarter (q-o-q) seasonally adjusted and annualized basis, Singapore's economy contracted 1.0%, compared with a 16.9% expansion in the previous quarter. MTI also announced that it has upgraded the gross domestic product (GDP) growth forecast for 2013 from between 1.0% and 3.0% to between 2.5% and 3.5%.

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

	Outstanding Amount (billion)						**Growth Rate** (%)			
	3Q12		**2Q13**		**3Q13**		**3Q12**		**3Q13**	
	SGD	**US$**	**SGD**	**US$**	**SGD**	**US$**	**q-o-q**	**y-o-y**	**q-o-q**	**y-o-y**
Total	**276**	**225**	**303**	**239**	**301**	**240**	**4.4**	**12.0**	**(0.7)**	**9.2**
Government	171	139	187	148	187	149	4.7	12.1	(0.3)	9.4
SGS Bills and Bonds	144	117	138	109	128	102	0.8	6.2	(7.2)	(11.1)
MAS Bills	27	22	50	39	59	47	31.9	60.1	19.0	119.3
Corporate	105	86	116	91	114	91	3.9	11.9	(1.3)	8.7

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, 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. SGS bills and bonds do 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$ rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Sources: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

Size and Composition

The size of Singapore's LCY bond market contracted to SGD301 billion (US$240 billion) at end-September **(Table 1)**, representing a 0.7% q-o-q decline due to a drop in treasury bills and bonds outstanding. However, the LCY bond market grew 9.2% y-o-y, driven by MAS bills more than doubling over the past year.

Government Bonds. The stock of LCY government bonds reached SGD187 billion at end-September, declining 0.3% q-o-q, but rising 9.4% y-o-y. The total comprises SGD128 billion of Singapore Government Securities (SGS) bills and bonds, and SGD59 billion of MAS bills. The q-o-q drop in the government bond market was driven by a 7.2% drop in the stock of SGS bills and bonds (mostly due to a drop in SGS bills), while the increase on a y-o-y basis was attributed to a substantial rise of 119.3% in MAS bills outstanding, resulting from increased issuance since April 2011 as part of MAS money market operations.

Corporate Bonds. Singapore's LCY corporate bonds outstanding were estimated at SGD114 billion at end-September, declining 1.3% q-o-q and expanding 8.7% y-o-y.

At end-September, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Singapore reached SGD63.1 billion, representing 55.3% of the total corporate bond market **(Table 2)**. HDB retained its ranking as the top corporate issuer in Singapore with outstanding bonds valued at SGD16.1 billion, followed by CapitaLand—one of the largest real estate and real estate fund management companies headquartered in Singapore—which moved up to the second spot in 3Q13 with bonds outstanding of SGD5.2 billion at end-September. The third largest corporate issuer was DBS Bank—previously the second-largest corporate issuer at end-June—with a total bond stock amounting to SGD5 billion.

Corporations from the financial sector dominated the list of the top 30 LCY corporate bond issuers in Singapore. Other major issuers were from the utilities, industrial, real estate, telecommunications, transportation, consumer, and energy sectors. Only three companies on the list were state-owned firms.

Corporate bond issuance reached SGD4.2 billion in 3Q13, up from SGD3.8 billion in 2Q13. A total of 18 bond series were issued by 16 companies during the quarter, with maturities ranging from 2 years to 10 years and with coupon rates of between 1.2% and 7.3%. Two perpetual bonds were also issued by Sembcorp Industries and United Overseas Bank. **Table 3** lists notable corporate bond issuance in 3Q13.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)			
1. Housing and Development Board	16.1	12.8	Yes	No	Financial
2. CapitaLand Ltd.	5.2	4.2	No	Yes	Financial
3. DBS Bank Ltd.	5.0	4.0	No	Yes	Financial
4. United Overseas Bank Ltd.	4.1	3.2	No	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	No	Financial
6. SP PowerAssets Ltd.	2.4	1.9	No	No	Utilities
7. Public Utilities Board	2.1	1.7	Yes	No	Utilities
8. Land Transport Authority	1.8	1.4	Yes	No	Industrial
9. GLL IHT Pte Ltd.	1.8	1.4	No	No	Real Estate
10. Oversea-Chinese Banking Corp.	1.7	1.4	No	Yes	Financial
11. Keppel Corp Ltd.	1.5	1.2	No	Yes	Industrial
12 .Olam International Ltd.	1.4	1.1	No	Yes	Consumer
13. Temasek Financial III	1.3	1.0	No	No	Financial
14. Neptune Orient Lines Ltd.	1.3	1.0	No	Yes	Industrial
15. City Developments Ltd.	1.3	1.0	No	Yes	Consumer
16. CapitaMalls Asia Treasury	1.1	0.9	No	No	Financial
17. Keppel Land Ltd.	1.1	0.9	No	Yes	Real Estate
18.PSA Corporation Ltd.	1.0	0.8	No	No	Consumer
19.Overseas Union Enterprise Ltd.	1.0	0.8	No	Yes	Consumer
20.Mapletree Treasury Services	1.0	0.8	No	No	Financial
21.Hyflux Ltd.	1.0	0.8	No	Yes	Industrial
22.Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
23.Singapore Airlines	0.8	0.6	No	No	Transportation
24.Global Logistic Properties	0.8	0.6	No	Yes	Industrial
25.CapitaLand Treasury Ltd.	0.7	0.6	No	No	Financial
26.Joynote Ltd.	0.7	0.6	No	No	Financial
27.F&N Treasury Pte Ltd.	0.7	0.6	No	No	Financial
28.Sembcorp Financial Services	0.7	0.6	No	No	Industrial
29.Hotel Properties Ltd.	0.7	0.5	No	Yes	Consumer
30.CMT MTN Pte Ltd.	0.7	0.5	No	No	Financial
Total Top 30 LCY Corporate Issuers	**63.1**	**50.3**			
Total LCY Corporate Bonds	**114.2**	**90.9**			
Top 30 as % of Total LCY Corporate Bonds	**55.3%**	**55.3%**			

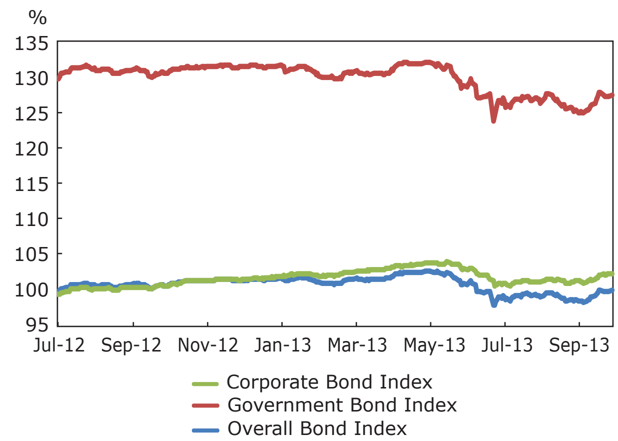
LCY = local currency.
Notes:
1. Data as of end-September 2013.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 3Q13

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
3-year bond	1.17	520
5-year bond	2.37	1,450
United Overseas Bank		
Perpetual bond	4.90	850
Sembcorp Industries		
Perpetual bond	5.00	200
Swiber Capital		
5-year bond	6.50	150
Oxley Holdings		
2-year bond	4.75	135
5-year bond	4.75	125
Hotel Properties		
10-year bond	3.90	100
Tat Hong Holdings		
5-year bond	4.50	100

LCY = local currency.
Source: Bloomberg LP.

Figure 2: Select Markit iBoxx SGD Bond Indices



SGD = Singapore dollar.
Notes:
1. Markit iBoxx SGD Overall Bond Index covers 198 bonds as of 21 October 2013.
2. Markit iBoxx SGD Government Bond Index covers 18 Singapore Government Securities as of 22 October 2013.
3. Markit iBoxx SGD Corporate Bond Index, as known as Market iBoxx SGD Non-Sovereign Index, covers 180 bonds as of 21 October 2013.
Source: Markit.

Figure 2 presents the select indices from the Markit iBoxx SGD Bond Index Family comprising the Overall Bond Index, Government Bond Index, and Corporate Bond Index (or Non-Sovereign Bond Index). The indices use a market capitalization weighting scheme and any unrated bond will be included in the index at 50% of its full notional value.

The Overall Bond Index covers approximately SGD150 billion worth of debt denominated in Singapore dollars (about 50% of the total bond market size), including investment grade and high-yield segments of the market across sovereign, quasi-sovereign, and corporate bonds.

The Government Bond Index consists of SGSs only, and the Corporate Bond Index consists of bonds other than SGSs such as bonds issued by Singapore's Statutory Boards as well as higher-yielding bonds issued by mid-sized companies.

Policy, Institutional, and Regulatory Developments

Singapore and other APEC Economies to Launch Asia Region Funds Passport

On 20 September, the finance ministers of Singapore, Australia, the Republic of Korea, and New Zealand signed a statement of intent to jointly develop the Asia Region Funds Passport (ARFP), which will facilitate the cross-border offering of funds in the region. When implemented, the ARFP will offer fund managers operating in a passport economy a direct and efficient route to distribute their funds in other passport economies. Investors in the region will also benefit from having access to a broader range of quality investment products. As an inclusive regional initiative, the ARFP will strengthen the region's fund management capabilities, deepen its capital markets, and provide financing for sustainable economic growth.

The PRC Extends CNY50 Billion RQFII Quota to Singapore

On 22 October, the PRC and Singapore agreed on initiatives to strengthen their cooperation on financial sector development and regulation. One of these initiatives is for the PRC to extend its Renminbi Qualified Foreign Institutional Investor (RQFII) program to Singapore, with an aggregate quota of CNY50 billion, in order to allow qualified Singapore-based institutional investors to channel offshore renminbi from Singapore into the PRC's onshore securities markets. Under this initiative, RQFII license holders may also issue CNY-denominated investment products to investors based in Singapore, within the RQFII quota. This program will help diversify the investor base in the PRC's capital market and promote the renminbi for investment use. In addition, Singapore will be given consideration as one of the investment destinations under the new Renminbi Qualified Domestic Institutional Investor (RQDII) scheme. This will allow qualified PRC institutional investors to use renminbi to invest in Singapore's capital markets. The measure will help broaden the universe of assets available to PRC investors and expand the investor base in Singapore's capital markets.