

Singapore—Update

Yield Movements

Singapore government bond yields fell throughout the length of the curve between end-December 2009 and mid-August 2010 (**Figure 1**). The yield on the 2-year tenor declined 9 basis points from its December 2009 level. Yields fell by larger amounts along the rest of the curve, with the most pronounced yield declines being those for the 10- and 15- year tenors, which fell by 75 and 74 basis points, respectively. The decline in yields, particularly at the short-end, was mirrored by the Singapore Interbank Offered Rate (SIBOR), which has been declining since January 2010 (**Figure 2**).

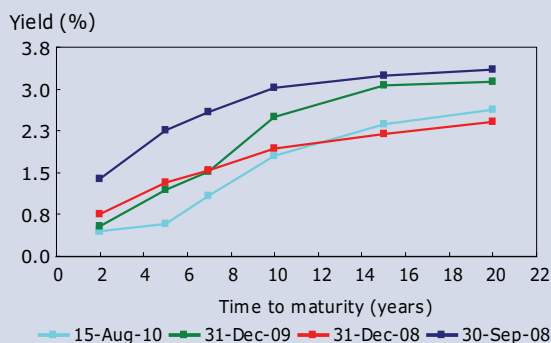
Singapore's gross domestic product (GDP) in 2Q10 surged 18.8% year-on-year (y-o-y), compared with a 16.9% expansion in 1Q10. The economic growth in 2Q10 was underpinned by manufacturing output, which rose 44.5% y-o-y on the back of increased production of active pharmaceutical ingredients and semiconductor chips. The wholesale and retail trade sectors grew 18.9% y-o-y due to high global trade flows, while several other sectors of the economy—construction, financial services, and other service industries such as tourism—posted y-o-y growth rates above 10%.

Citing the slowdown of economic conditions in the United States and European Union, as well as moderating growth in the People's Republic of China (PRC), the Ministry of Trade and Industry (MTI) said Singapore's remarkable first half economic performance was not likely to be sustained. The MTI did project, however, that Singapore's growth would remain healthy for the rest of 2010, and maintained its forecast of 13%–15% economic growth for the full year.

In April, the Monetary Authority of Singapore (MAS) announced that it would re-center its exchange rate policy band to the prevailing level of the Singapore dollar's nominal effective exchange rate, and that it would shift its policy from zero percent appreciation to "modest and gradual appreciation," with the width of the policy band remaining unchanged. As of mid-August, Singapore was continuing to maintain this exchange rate policy.

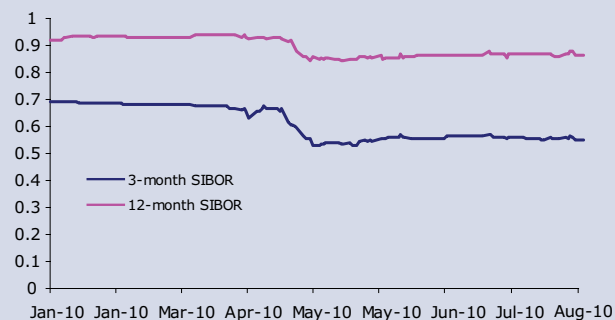
Singapore's consumer price inflation stood at 3.1% y-o-y in July due to higher transportation, housing, and food costs. The July inflation figure compares with 2.7% in June and 3.2% in May. The MAS expects inflation to range between 2.5% and 3.5% for the full year, driven by higher commodity prices and private road transport costs.

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



LCY = local currency.
Source: Bloomberg LP.

Figure 2: SIBOR Rates



SIBOR = Singapore Interbank Offered Rate.
Source: Bloomberg LP.

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

	Amount (billion)								Growth Rate (%)							
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10		May-10		Jun-10	
	SGD	USD	SGD	USD	SGD	USD	SGD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m	
Total	222	159	222	162	225	160	226	162	17.8	5.2	(0.1)	1.3	12.6	1.8	0.6	
Government	127	90	125	91	126	90	128	92	17.0	2.3	(1.1)	0.6	10.7	1.2	1.7	
Bills	52	37	52	38	53	38	53	38	25.2	(0.8)	0.6	1.3	15.4	2.7	0.8	
Bonds	75	54	73	53	73	52	75	54	12.0	4.6	(2.3)	—	7.6	0.1	2.5	
Corporate	95	68	97	70	99	70	98	70	18.9	9.3	1.2	2.3	15.1	2.6	(0.9)	

— = data not available, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.

2. Bloomberg end-of-period LCY-USD rate is used.

3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Monetary Authority of Singapore and Bloomberg LP.

Size and Composition

The amount of local currency (LCY) bonds outstanding in Singapore at the end of June totaled SGD226 billion, up 12.6% y-o-y (**Table 1**). Government bonds outstanding rose 10.7% y-o-y to SGD128 billion, while corporate bonds outstanding grew 15.2%. As of end-June, the top 30 corporate issuers accounted for 40.8% of total corporate bonds outstanding (**Table 2**). Notable issuance in 2Q10 included those by the Land Transport Authority (SGD575 million), SP Power Assets (SGD500 million), and HK Land Treasury (SGD150 million).

Rating Changes

On 27 August, Standard & Poor's (S&P) affirmed Singapore's long-term and short-term sovereign credit ratings at AAA and A-1+, respectively, with a stable outlook. S&P said that the ratings were supported by Singapore's "extensive fiscal and external strengths" and "solid record of prudent macroeconomic management." In particular, S&P

Table3: Selected Sovereign Ratings and Outlook for Singapore

	Moody's	Standard & Poor's	Fitch
Sovereign FCY LT Ratings	Aaa	AAA	AAA
Outlook	stable	stable	stable

FCY = foreign currency, LT = long-term.

Source: Ratings agencies.

cited Singapore's significant foreign exchange reserves and sound fiscal position that allowed the government to introduce a SGD20.5 billion stimulus package in 2009 in response to the global financial crisis. According to S&P, the package helped the economy weather the crisis as the economy contracted at a slower rate.

Policy, Institutional, and Regulatory Developments

PBOC and MAS Agree to a Bilateral Currency Swap

On 23 July, the People's Bank of China (PBOC) and the MAS agreed to a bilateral currency swap arrangement to promote bilateral trade and direct investment. The swap arrangement will provide PRC yuan liquidity of up to CNY150 billion and Singapore dollar liquidity of up to SGD30 billion. The initial term of the arrangement is 3 years with the possibility for extension.

SGX Launches Initiatives to Boost Bond Listing and Trading

In August, the Singapore Exchange (SGX) launched initiatives to promote the listing, trading, and distribution of fixed-income instruments in Singapore. Among the initiatives are measures to attract companies listed in Singapore to issue bonds that can be listed and traded on the SGX. The SGX plans to streamline the approval process

Table 2: Bonds Outstanding of Top 30 Corporate Issuers, June 2010

Issuer	Outstanding Amount LCY Bonds (SGD billion)
Housing and Development Board (Public Housing Authority)	5.55
Capitaland (Real Estate)	4.87
United Overseas Bank (Banking)	3.62
SP Power Assets (Electricity Transmission and Distribution)	2.91
Temasek Financial I (Investment Company)	2.60
Oversea-Chinese Banking (Banking)	2.20
Public Utilities Board (National Water Authority)	2.10
Land Transport Authority (Building and Construction)	1.88
DBS Bank Singapore (Banking)	1.61
PSA Corp. (Container Transshipment Hub)	1.60
F&N Treasury (Food Service, Property, Pub & Printing)	1.32
Singapore Airlines (Airlines)	0.90
Capitaland Treasury (Real Estate)	0.70
HK Land Treasury Service (Property Investment Management)	0.70
Capitamall Trust (REITS-Shopping Centers)	0.65
City Developments (Hotels and Motels)	0.60
Singapore Press Holdings (Publishing-Newspapers)	0.60
Singtel Group Treasury (Telecoms)	0.60
Keppel Land (Real Estate)	0.59
Mapletree Treasury Services (Special Purpose Entity)	0.53
Ascott Capital (Real Estate)	0.50
Sembcorp Financial Services (Engineering/R&D Services)	0.50
Singapore Post (Postal Services)	0.50
ST Treasury Services (Finance)	0.48
Yanlord Land Group (Real Estate, PRC-based)	0.42
Capitacommercial Trust (REITS-Diversified)	0.41
Hotel Properties (Hotels and Motels)	0.40
Guocoland (Property Development and Investment)	0.39
Asia Pacific Breweries (Breweries)	0.36
Fraser & Neave (Food Service, Property, Pub & Printing)	0.35
Total Top 30 Corporate Issuers	40.4
Total Corporate Bonds Outstanding	99.1
Top 30 as % of Total Corporate	40.79%

Note: Total corporate bonds outstanding based on *AsianBondsOnline* estimates.
Source: Bloomberg LP.

for bond listings and cut the time required for approval in half.

In addition to attracting bond listings, the SGX plans to encourage the listing and trading of preference shares and convertible bonds. By 1Q11, the SGX expects to put in place an on-exchange secondary market allowing for the trading of Singapore Government Securities by both individual and institutional investors.