

Singapore—Update

Yield Movements

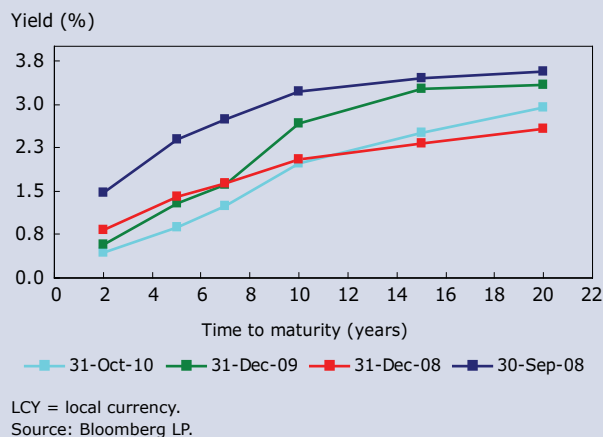
Singapore government bond yields fell throughout the length of the curve between end-December 2009 and end-October 2010 (**Figure 1**). The yield on the 2-year tenor declined 15 basis points from its end-December level. Yields declined by larger amounts along the rest of the curve: the 5-year tenor declined 40 basis points; the 7-year tenor fell 37 basis points; and yields on the 10-, 15-, and 20-year tenors fell 68, 75, and 39 basis points respectively.

Singapore's economy expanded 10.6% year-on-year (y-o-y) in 3Q10, according to preliminary estimates from the Ministry of Trade and Industry (MTI). The 3Q10 growth rate was down from the revised growth rate 19.5% in 2Q10. Still, growth estimates for the quarter remained on track for Singapore to reach MTI's forecast of around 15.0% economic growth for the full year 2010.

On 14 October, the Monetary Authority of Singapore (MAS) announced in its second policy statement of the year that it would allow a modest and gradual appreciation of the Singapore dollar. MAS said that it would slightly steepen and widen its exchange rate policy band, but would not change the level at which the band is centered. According to MAS, this policy stance remains supportive of Singapore's economic growth and its annual inflation targets of 2.5%–3.0% for 2010 and 2.0%–3.0% for 2011. Consumer price inflation in August rose to 3.3% y-o-y due to increasing costs of transportation, housing, and food. Singapore's consumer price inflation had previously stood at 3.1% y-o-y in July, 2.7% in June, and 3.2% in May.

In April, MAS re-centered its policy band at the prevailing level of the Singapore dollar's nominal effective exchange rate (S\$NEER) and shifted the policy band from zero percent appreciation to modest and gradual appreciation. Since then, the S\$NEER has fluctuated in the upper half of the policy band.

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



Size and Composition

As of end-September, the amount of local currency (LCY) bonds outstanding in Singapore stood at SGD232.8 billion, up 9.9% y-o-y (**Table 1**). Singapore Government Securities (SGS) bonds and bills, issued by MAS increased 4.5% y-o-y to SGD128.1 billion. MAS has created a highly tradable bond stock by limiting the number of bond issues outstanding to 19, and by frequently re-opening its benchmark issues. This has resulted in an attractive array of uniform maturities for investors, as can be seen in **Figures 2a and 2b**.

Corporate bonds outstanding increased 17.5% y-o-y to SGD104.7 billion. As of end-September, the top 30 corporate issuers accounted for 41.3% of total corporate bonds outstanding (**Table 2**). Notable issues in 3Q10 included a SGD300 million bond from Singapore Airlines, a SGD350 million bond from property developer Capitaland, and a SGD1.0 billion bond from Temasek.

Large inflows of foreign capital have also had an impact on the corporate bond sector. Singapore corporate issuance grew by 64.8% quarter-on-quarter (q-o-q) and 104.4% y-o-y in 3Q10, resulting

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

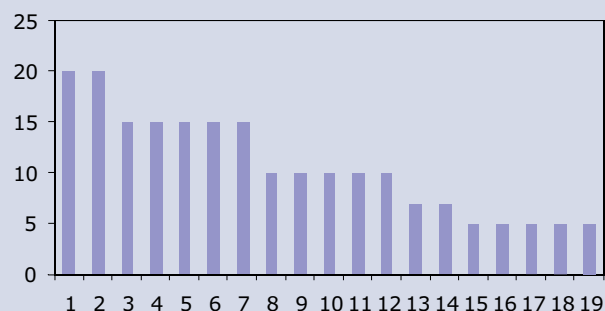
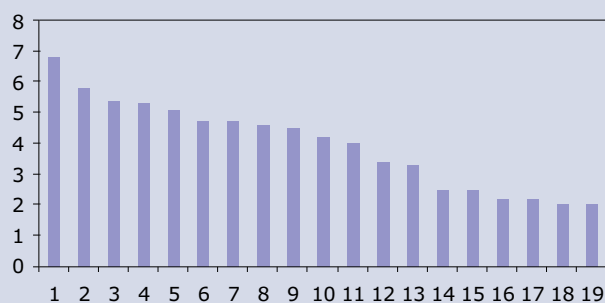
| | Amount (billion) | | | | | | Growth Rate (%) | | | | | | | |
|------------|------------------|-------|--------|-------|--------|-------|-----------------|-------|--------|-------|--------|-------|--------|-------|
| | Jun-10 | | Jul-10 | | Aug-10 | | Jun-10 | | Jul-10 | | Aug-10 | | Sep-10 | |
| | SGD | USD | SGD | USD | SGD | USD | Y-o-y | q-o-q | m-o-m | m-o-m | Y-o-y | q-o-q | q-o-q | m-o-m |
| Total | 225.9 | 161.7 | 224.3 | 164.9 | 227.5 | 168.0 | 12.6 | 1.8 | (0.7) | 1.4 | 9.9 | 3.1 | 2.3 | |
| Government | 128.1 | 91.7 | 125.2 | 92.1 | 125.6 | 92.7 | 10.7 | 1.2 | (2.3) | 0.3 | 4.5 | 0.0 | 2.0 | |
| Bills | 53.1 | 38.0 | 53.6 | 39.4 | 54.0 | 39.9 | 15.4 | 2.7 | 0.9 | 0.7 | 10.5 | 2.6 | 0.9 | |
| Bonds | 75.0 | 53.7 | 71.6 | 52.6 | 71.6 | 52.9 | 7.6 | 0.1 | (4.5) | 0.0 | 0.4 | (1.9) | 2.8 | |
| Corporate | 97.8 | 70.0 | 99.1 | 72.9 | 101.9 | 75.2 | 15.2 | 2.6 | 1.3 | 2.8 | 17.5 | 7.1 | 2.8 | |

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 *AsianBondOnline* estimates.
2. Bloomberg LP 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, Singapore Government Securities, and Bloomberg LP.

Figure 2a: Singapore LCY Government Bonds by Maturity (years)**Figure 2b: Singapore LCY Government Bonds by Size (SGD billion)**

LCY = local currency.

Source: Monetary Authority of Singapore and *AsianBondsOnline*

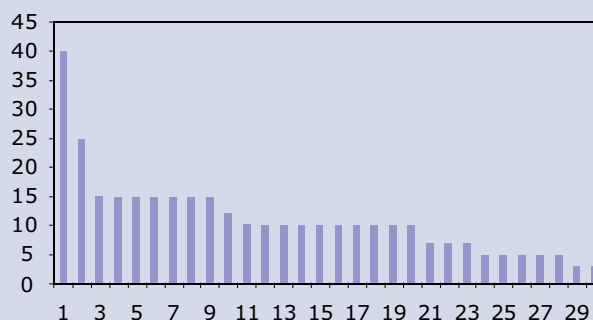
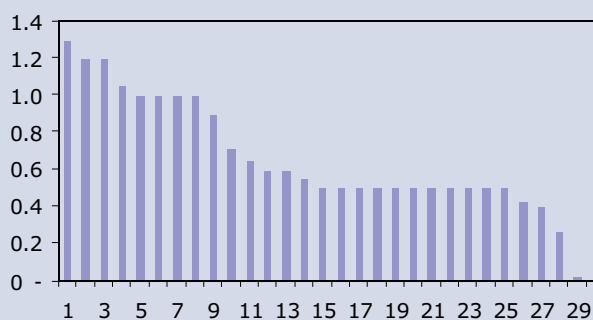
in increases in corporate bonds outstanding of 7.1% q-o-q and 17.5% y-o-y. While the liquidity of the Singapore corporate bond market is less than that of the SGS bond market, it is improving rapidly and fund managers are actively seeking out Singapore corporate bonds for inclusion in their portfolios.

The current structure of Singapore's corporate bond market can be seen in **Figures 3a and 3b**. In terms of maturity, the longest-dated corporate bonds were those of Temasek, with tenors of about 40 and 25 years. In terms of size, the largest single issue was that of United Overseas Bank, with an SGD1.3 billion bond. This was followed by three bond issues from property developer Capitaland, two of which amounted to SGD1.2 billion each, while the third had an issue size of SGD1.1 billion.

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

| Issuer | Outstanding Amount LCY Bonds (SGD billion) |
|---|--|
| Housing and Development Board (Public Housing Authority) | 5.65 |
| Capitaland (Real Estate) | 4.87 |
| United Overseas Bank (Banking) | 3.62 |
| Temasek Financial I (Investment Company) | 3.60 |
| SP Power Assets (Electricity Transmission and Distribution) | 3.01 |
| Public Utilities Board (National Water Authority) | 2.50 |
| Oversea-Chinese Banking (Banking) | 2.20 |
| Land Transport Authority (Building and Construction) | 1.88 |
| Singapore Airlines (Airlines) | 1.70 |
| DBS Bank Singapore (Banking) | 1.61 |
| F&N Treasury (Food Service, Property, Pub & Printing) | 1.32 |
| City Developments (Hotels and Motels) | 1.10 |
| Capitaland Treasury (Real Estate) | 1.05 |
| PSA Corp. (Container Transshipment Hub) | 1.00 |
| Keppel Land (Real Estate) | 0.74 |
| Sembcorp Financial Services (Engineering/R&D Services) | 0.70 |
| Capitamall Trust (REITS-Shopping Centers) | 0.65 |
| Singapore Press Holdings (Publishing-Newspapers) | 0.60 |
| Singtel Group Treasury (Telecoms) | 0.60 |
| Mapletree Treasury Services (Special Purpose Entity) | 0.53 |
| Ascott Capital (Real Estate) | 0.50 |
| CMT MTN Pte Ltd | 0.50 |
| Singapore Post (Postal Services) | 0.50 |
| ST Treasury Services (Finance) | 0.48 |
| Yanlord Land Group (Real Estate, PRC-based) | 0.42 |
| Hotel Properties (Hotels and Motels) | 0.41 |
| Capitacommercial Trust (REITS-Diversified) | 0.41 |
| HK Land Treasury Service (Property Investment Management) | 0.38 |
| Asia Pacific Breweries (Breweries) | 0.36 |
| Guocoland (Property Development and Investment) | 0.35 |
| Total Top 30 Corporate Issuers | 43.23 |
| Total Corporate Bonds Outstanding | 104.70 |
| Top 30 as % of Total Corporate | 41.3% |

PRC = People's Republic of China, Pub & Printing = publishing and printing, R&D = research and development, REITS real estate investment trusts.
 Note: Total corporate bonds outstanding based on *AsianBondsOnline* estimates.
 Source: Bloomberg LP.

Figure 3a: Top 30 LCY Corporate Bonds by Maturity (years)**Figure 3b: Top 30 LCY Corporate Bonds by Size (SGD billion)**

LCY = local currency.
 Source: Bloomberg LP and *AsianBondsOnline*

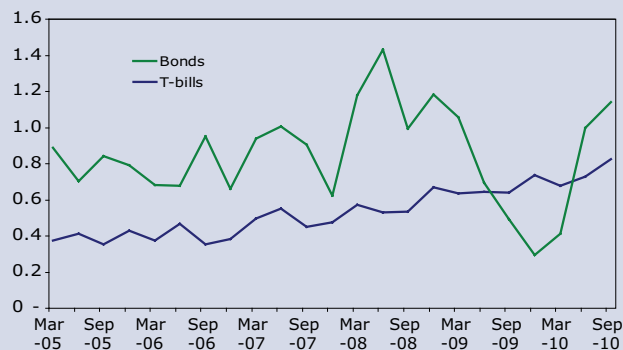
Other large bond issues included those of Temasek (two SGD1.0 billion bonds), Singapore Airlines (SGD0.9 billion), and Oversea-Chinese Banking (SGD0.7 billion).

Turnover Ratios

The third quarter of the year saw increased liquidity for both SGS bonds and bills, as indicated by rising turnover ratios. In 3Q10, the turnover ratio for bonds was 1.14, compared with 1.00 in the previous quarter, while the turnover ratio for treasury bills stood at 0.83, compared with 0.73 in the previous quarter. The turnover ratio for treasury bills has been on a broad, upward trend since 2005, while the turnover ratio for bonds has been on an uptick since March 2010 after falling off from peaks reached in 2008 (**Figure 4**). This

trend reflects a combination of large inflows of foreign capital and the consolidation of issue size for SGS bonds over the last several years, which has made them more attractive to investors.

Figure 4: Quarterly Turnover Ratio Trends for Singapore Treasury Bonds and Bills



T-bills = treasury bills.
Source: Monetary Authority of Singapore.

Rating Changes

In 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 (**Table 3**). 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 cited Singapore's significant foreign exchange reserves and sound fiscal position, which 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 than it would have absent a stimulus package.

Table 3: Selected Sovereign Ratings and Outlook for Singapore

| | Moody's | S&P | Fitch |
|--------------------------|---------|--------|--------|
| Sovereign FCY LT Ratings | Aaa | AAA | AAA |
| Outlook | stable | stable | stable |

FCY = foreign currency, LT = long-term.
Source: Ratings agencies.

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 MAS agreed to a bilateral currency swap arrangement to promote bilateral trade and direct investment. The swap arrangement will provide 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.

Singapore Exchange 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, which, in turn, plans to streamline the approval process for bond listings and cut the time required for approval in half.

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

SGX to launch ADRs

In October, SGX launched American Depository Receipts (ADRs) on its GlobalQuote platform (SGX's quotation board for international securities). SGX-quoted ADRs will enable investors to trade shares of 19 major Asian companies, including Baidu and Suntech Power Holdings, which do not have Asian home exchanges. The availability of Asian ADRs will enable investors to trade the shares of all of these companies during Asian trading hours. The launch also marks cooperation between SGX and NASDAQ OMX to bring ADR quotations on GlobalQuote, thereby linking up market participants on both trading pools. The Bank of New York acts as the depository bank for this new ADR program.