

Singapore—Update

Yield Movements

The Singapore government bond yield curve steepened between end-December 2010 and end-February (Figure 1). Yields fell for all tenors throughout the length of the curve except for the 20-year benchmark, which recorded an increase of 7 basis points. Yields for 5- and 7-year maturities fell by larger amounts, dropping 25 and 22 basis points, respectively. Yields for 2-, 10-, and 15-year benchmarks declined 6, 11, and 1 basis point(s), respectively. The yield spread between 2- and 10-year maturities narrowed to 216 basis points as of 28 February from a spread of 221 basis points at end-December.

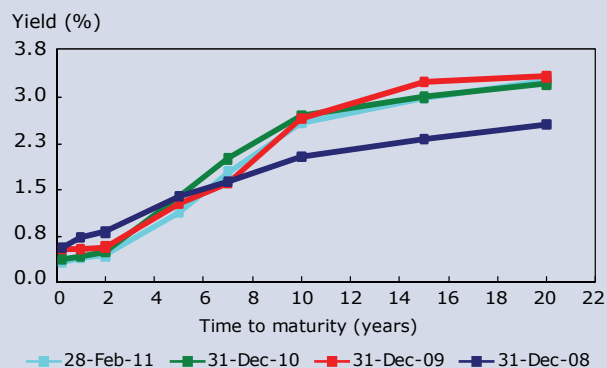
Singapore's economy expanded 12.0% year-on-year (y-o-y) in 4Q10, following an increase of 10.5% y-o-y recorded in 3Q10, according to the Ministry of Trade and Industry (MTI). Singapore's expanded output in 4Q10 was driven by strong growth in the manufacturing sector, which recorded 25.5% y-o-y growth and was led by the biomedical manufacturing cluster. Meanwhile, growth in the services sector eased to 8.8% y-o-y from 10.2% in 3Q10, while the construction sector contracted

by 2.0% y-o-y after recording 6.7% growth in 3Q10. For the whole of 2010, Singapore's economy expanded 14.5% y-o-y in a reversal of the 0.8% contraction in 2009. MTI expects Singapore's economic growth to remain between 4.0% and 6.0% in 2011.

The Monetary Authority of Singapore (MAS) announced in October 2010 that it would allow a modest and gradual appreciation of the Singapore dollar's nominal effective exchange rate (S\$NEER) policy trading band. MAS also said that it would slightly steepen and widen its currency's trading 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 MAS' annual inflation targets of 2.5%–3.0% for 2010 and 2.0%–3.0% for 2011.

Singapore's consumer price inflation in January accelerated to its highest level since 2008, led by higher prices for transport, housing, and food. Consumer price inflation climbed to 5.5% y-o-y in January after posting an increase of 4.6% in December. Transport costs rose 18.4% on account of higher prices for cars and petrol, housing costs increased 5.3% due to higher costs for accommodation and electricity tariffs, and food prices went up 2.8%. Consumer price inflation rose 2.8% for the whole of 2010, compared with 0.6% in 2009.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The size of Singapore's local currency (LCY) bond market expanded 15.9% in 2010 to reach SGD229.3 billion (USD178.7 billion) (Table 1). The y-o-y growth rate at end-December nearly doubled the 8.8% y-o-y growth rate from end-September. As of end-December, total LCY bonds outstanding rose 4.9% quarter-on-quarter (q-o-q) and 0.5% month-on-month (m-o-m).

The outstanding stock of Singapore Government Securities (SGS) rose 7.0% y-o-y as of end-

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

	Amount (billion)						Growth Rate (%)										
	Sep-10		Oct-10		Nov-10		Dec-10		Sept-10		Oct-10		Nov-10		Dec-10		
	SGD	USD	SGD	USD	SGD	USD	SGD	USD	Y-o-y	Q-o-Q	M-o-M	Y-o-y	Q-o-Q	M-o-M	Y-o-y	Q-o-Q	M-o-M
Total	219	166	224	173	228	173	229	179	8.8	2.9	2.4	15.9	4.9	1.9	15.9	4.9	0.5
Government	128	97	130	101	131	99	132	103	4.5	–	1.6	0.9	3.3	0.9	7.0	3.3	0.8
Bills	55	41	55	42	56	42	57	44	10.5	2.6	0.7	9.6	4.8	2.2	9.6	4.8	1.8
Bonds	74	56	75	58	75	57	75	59	0.4	(1.9)	2.2	–	2.2	–	5.0	2.2	–
Corporate	90	69	94	72	97	73	97	76	15.5	7.4	3.6	30.9	7.3	3.4	30.9	7.3	0.2

— = 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. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* 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.

December to reach SGD132.3 billion, against 4.5% y-o-y growth as of end-September. SGS bills increased by 9.6% y-o-y and SGS bonds grew 5.0% y-o-y through December, with total amounts outstanding of SGD57.1 billion and SGD75.2 billion, respectively.

Growth in the issuance of SGS bills slowed to 2.5% y-o-y in 4Q10—totaling SGD53.5 billion—after having recorded double-digit growth in the first three quarters of 2010. The issuance of SGS bonds declined 27.3% y-o-y to SGD1.6 billion in 4Q10, against 25.0% y-o-y growth in 3Q10. The majority of SGS issuance in 4Q10 comprised 91-day Treasury bills, while in October only 5-year SGS (SGD1.6 million) were issued. 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.

The SGS issuance calendar for the first half of 2011 includes more than 20 issues of 3-month Treasury bills and a reopening of benchmark bonds. Starting in February 2011, the 7-year bond will no longer be used as a benchmark bond, as the bond yield curve has been extended meaningfully beyond 10 years. Future bond issuance will concentrate liquidity on existing securities across the curve, including 2-, 5-, 10-, 15-, and 20-year bonds.

Corporate bonds outstanding amounted to SGD97.0 billion as of end-December 2010, up 30.9% y-o-y. On a q-o-q basis, corporate bonds grew 7.3%.

Total corporate bond issuance in 4Q10 climbed 146.7% y-o-y to reach SGD5.62 billion, after recording a 55.5% y-o-y increase in 3Q10. However, corporate bond issuance actually declined 1.4% q-o-q. Notable issues in 4Q10 included a total of SGD2.5 billion of bonds from DBS Bank, as well as SGD500 million bond issuances from Keppel Corp., Keppel Land, and the Land Transport Authority. In January, new bonds issued included SGD200 million from CapitaMalls, SGD400 million from Great Eastern Holdings, and SGD420 million from Savu Investments.

The top 40 corporate issuers in Singapore at end-December were mainly from the financial and consumer sectors, accounting for 52% of total corporate bonds outstanding (**Table 2**). The majority of the issuers included privately-owned corporations and three statutory boards—Housing and Development Board (HDB), Public Utilities Board, and the Land Transport Authority. HDB ranked first as the top LCY corporate issuer, with total LCY bonds outstanding of SGD6.1 billion as of end-December.

Foreign Currency Bonds

As of end-December, financial institutions had issued 62% of the total foreign currency (FCY) bonds outstanding in Singapore, while private corporations had issued the remaining amount. No SGS were issued in FCY as the government did not need to finance its expenditures through the issuance of government bonds. The majority of the FCY bonds outstanding were in USD (83.7%). All other currencies, including the EUR, GBP, HKD, JPY, MYR, and NOK, accounted for a cumulative share of 16.3% of total FCY bonds outstanding. In 4Q10, total FCY bond issuance amounted to USD966 million, including Oversea-Chinese Banking Corporation's USD500 million issue of 12-year bonds in November.

In January, StatsChiPac issued USD200 million of 5-year bonds in the international bond market. This issuance followed StatsChiPac's USD600 million issue of 5-year bonds in August 2010. Meanwhile, DBS Bank issued a total of USD150 million of 30-year bonds in January.

Policy, Institutional, and Regulatory Developments

World Bank and Finance Ministry of Singapore Launch Regional Infrastructure Finance Center of Excellence

In November, the World Bank and the Finance Ministry of Singapore launched the Infrastructure Finance Center of Excellence (IFCOE) to assist

regional governments in tapping the private sector for investments in Asian infrastructure. IFCOE also aims to expand the infrastructure finance advisory work of the World Bank–Singapore Urban Hub (Singapore Hub). IFCOE is a specialized unit created under the Singapore Hub, which was established in June 2009.

Singapore Government Bonds to Trade on SGX

In January, the Finance Ministry of Singapore announced that it would allow the trading of SGS on the Singapore Exchange (SGX) by June 2011. The ministry aims to provide retail investors with a safe but higher-yielding alternative to bank deposits. The SGX plans to continue enhancing its infrastructure to facilitate bond listing and trading, as well as expanding its product range to include SGS.

Funding for Proposed SGX-ASX Merger

The SGX announced in January that it has secured long-term financing from six banks to fund its proposed merger with the Australian Securities Exchange (ASX). The financing includes term loans worth SGD3.8 billion and AUD750 million from the Australia and New Zealand Banking Group (ANZ Bank), the Singapore branch of the Bank of Tokyo-Mitsubishi UFJ, DBS Bank, Oversea-Chinese Banking Corporation, United Overseas Bank, and National Australia Bank. In October, ASX and SGX announced that they had agreed to merge, creating the world's fifth-largest exchange group and Asia's second-largest behind the Hong Kong Stock Exchange.

Table 2: Top 40 Issuers of LCY Corporate Bonds in Singapore (as of 31 December 2010)

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (USD billion)				
1. Housing and Development Board	6.1	4.8	Yes	No	No	Financial
2. Capitaland	4.9	3.8	No	Yes	Yes	Financial
3. DBS Bank Singapore	4.1	3.2	No	Yes	Yes	Financial
4. United Overseas Bank	3.6	2.8	No	Yes	Yes	Financial
5. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
6. Public Utilities Board	2.5	1.9	Yes	No	No	Utilities
7. SP Power Assets	2.5	1.9	No	Yes	No	Utilities
8. Land Transport Authority	2.4	1.9	Yes	No	No	Industrial
9. Oversea-Chinese Banking	2.2	1.7	No	Yes	Yes	Financial
10. Singapore Airlines	1.7	1.3	No	Yes	Yes	Consumer
11. F&N Treasury	1.3	1.0	No	Yes	No	Financial
12. Keppel Land	1.2	1.0	No	Yes	Yes	Financial
13. Capitamall Trust	1.2	0.9	No	Yes	Yes	Financial
14. City Developments	1.1	0.9	No	Yes	Yes	Consumer
15. Capitaland Treasury	1.1	0.8	No	Yes	No	Financial
16. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
17. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
18. Sembcorp Financial Services	0.7	0.5	No	Yes	No	Industrial
19. Capitacommercial Trust	0.6	0.5	No	Yes	Yes	Financial
20. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
21. Singtel Group Treasury	0.6	0.5	No	Yes	No	Communications
22. Ascott Capital	0.5	0.4	No	Yes	No	Financial
23. Keppel Corporation	0.5	0.4	No	Yes	Yes	Diversified
24. Singapore Post	0.5	0.4	No	Yes	Yes	Industrial
25. Hotel Properties	0.5	0.4	No	Yes	Yes	Consumer
26. ST Treasury Services	0.5	0.4	No	Yes	No	Financial
27. Asia Pacific Breweries	0.4	0.3	No	Yes	Yes	Consumer
28. Guocoland	0.4	0.3	No	Yes	Yes	Financial
29. Capitamalls Asia Treasury	0.4	0.3	No	Yes	No	Financial
30. Sengkang Mall	0.3	0.3	No	Yes	No	Financial
31. Ascendas	0.3	0.3	No	Yes	Yes	Financial
32. Queensley Holdings	0.3	0.2	No	Yes	No	Financial
33. CDL Properties	0.3	0.2	No	Yes	No	Financial
34. Olam International	0.3	0.2	No	Yes	Yes	Consumer
35. Overseas Union Enterprise	0.3	0.2	No	Yes	Yes	Consumer
36. Ruby Assets	0.3	0.2	No	yes	No	Financial
37. Singapore Power	0.3	0.2	No	Yes	No	Utilities
38. Swiber Holdings	0.3	0.2	No	Yes	Yes	Energy
39. Midpoint Properties	0.3	0.2	No	Yes	No	Financial
40. Neptune Orient Lines	0.3	0.2	No	Yes	Yes	Industrial
Total Top 40 LCY Corporate Issuers	50.5	39.3				
Total LCY Corporate Bonds	97.0	75.6				
Top 40 as % of Total LCY Corporate Bonds	52.0%	52.0%				

LCY=local currency.
Source: Bloomberg LP.