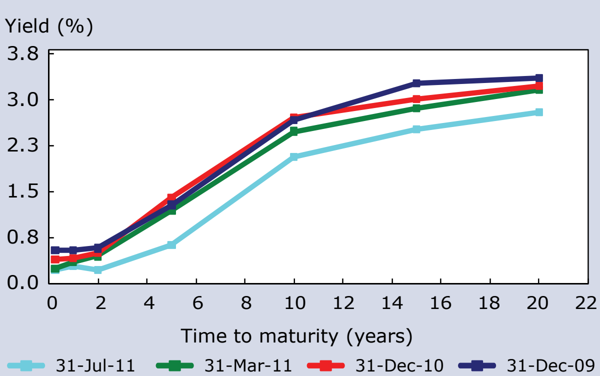
Singapore—Update

Yield Movements

The government bond yield curve for Singapore shifted downward across all maturities between end-December 2010 and end-July **(Figure 1)**. Between end-March and end-July, bond yields for longer maturities fell the most, following the Monetary Authority of Singapore's (MAS) announcement of an upward re-centering of its exchange rate policy band in a bid to ease inflationary pressures. Yields fell for the 3- and 12-month tenors by only 2 basis points (bps) and 6 bps, respectively, while yields for the 5- through the 20-year tenor fell between 35 bps and 56 bps. The yield spread between 2- and 10-year maturities narrowed to 184 bps at end-July from a spread of 203 bps at end-March.

In its semi-annual policy statement on 14 April, MAS announced an upward re-centering of its exchange rate policy band to a level below that of the prevailing Singapore dollar nominal effective exchange rate (S$NEER). The slope and width of the policy band will remain unchanged. The policy decision, which allows for the further appreciation of the Singapore dollar, aims to moderate surging prices while protecting the economy's expansion. The move is also in line with MAS' tighter policy stance announced first in October 2010 and again in April.

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



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation accelerated in January to its highest level since 2008, led by higher prices for transportation, housing, and food. Consumer price inflation climbed to 5.5% year-on-year (y-o-y) in January before leveling off at 5.0% y-o-y in February and March. Consumer price inflation then eased slightly to 4.5% y-o-y in April and held steady at the same level in May before surging to 5.2% y-o-y in June. Inflation stemming from higher oil, labor, and transportation costs remains a potential threat to the economy. MAS expects consumer price inflation to range between 4% and 5% for full-year 2011.

Singapore's gross domestic product (GDP) growth slowed to 0.9% y-o-y in 2Q11, based on the data released by the Ministry of Trade and Industry (MTI), from a rapid expansion of 9.3% in 1Q11. According to MTI, the easing revealed a slowdown in many sectors, particularly manufacturing, which posted a contraction of 5.9% y-o-y following growth of 16.5% in 1Q11. The decline in the manufacturing sector reflected a slump in the production of electronics and pharmaceuticals. Meanwhile, growth in the construction and services sectors in 2Q11 moderated to 1.5% and 3.9% y-o-y, respectively, from 2.4% and 7.6% in 1Q11. The MTI expects Singapore's economy to grow between 5% and 6% in 2011.

Size and Composition

Total local currency (LCY) bonds outstanding in Singapore expanded 18.0% y-o-y in 2Q11 to reach SGD250.5 billion (US$204 billion) **(Table 1)**. This y-o-y growth was driven mainly by Singapore Government Securities (SGS) bonds, which grew 7.5%, and corporate bonds, which grew 33.0%.

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

	Amount (billion)								Growth Rate (%)						
	Mar-11		Apr-11		May-11		Jun-11		Mar-11		Apr-11	May-11	Jun-11		
	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	240	191	245	200	247	200	251	204	15.4	4.8	2.1	0.4	18.0	4.3	1.6
Government	133	106	136	111	136	110	139	113	5.3	0.8	1.9	–	8.1	3.9	2.0
Bills	58	46	58	47	58	47	58	47	12.0	1.4	–	–	9.0	–	–
Bonds	75	60	78	64	78	63	81	66	0.7	0.3	3.3	–	7.5	6.9	3.5
Corporate	107	85	110	90	111	90	112	91	31.1	10.3	2.4	1.0	33.0	4.7	1.2

– = 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–US$ 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.

On a quarter-on-quarter (q-o-q) basis, growth in total LCY bonds outstanding eased slightly to 4.3% in 2Q11 from 4.8% in 1Q11 due to slower growth in corporate bonds.

The outstanding stock of SGS rose 8.1% y-o-y as of end-June to reach SGD138.5 billion, compared with 5.3% y-o-y growth as of end-March. SGS bills outstanding have remained flat at SGD57.9 billion since January, with y-o-y growth slowing to 9.0% in 2Q11 from 12.0% in 1Q11. Meanwhile, SGS bonds outstanding rose 7.5% y-o-y to SGD80.6 billion in 2Q11, following marginal growth of only 0.7% in 1Q11.

SGS bills comprised 91% of total SGS outstanding at the end of 2Q11. On a q-o-q basis, issuance of SGS bills climbed 7.1% in 2Q11 after declining 5.2% in 1Q11. On a y-o-y basis, however, growth in the issuance of SGS bills slowed to 9.0% in 2Q11 from 21.9% in 1Q11. Meanwhile, the issuance of SGS bonds rose 30.0% y-o-y to SGD5.2 billion in 2Q11 due to two new issuances: a SGD2.5 billion 5-year bond and a SGD2.7 billion 10-year bond in April and June, respectively.

The Singapore government does not need to finance its expenditures through the issuance of government bonds as it has operated on budget surpluses in recent decades. However, there are three primary objectives with the issuance of SGS bonds: (i) build a liquid SGS market to facilitate pricing of corporate issuance, (ii) foster the growth of an active secondary market, and (iii) encourage issuers and investors to participate in the Singapore bond market.

In July 2010, MAS announced that it would begin issuing MAS bills in 2Q11 for the purpose of liquidity management in the banking system. On 25 April, the first SGD1.0 billion of MAS bills were issued. These bills are one of four instruments available to MAS for use in money market operations. The other three instruments are foreign exchange (FX) swaps or reverse swaps, SGS repos or reverse repos, and clean lending or borrowing. MAS bills are available in tenors of 4, 6, and 8 weeks, as well as 3 months. The issuance size will be announced

1 business day ahead of the scheduled auction, with MAS committing to announce the issuance calendar in May and November of each year. MAS bills are not listed on the Singapore Exchange (SGX).

The SGS issuance calendar for the second half of 2011 includes more than 26 issues of 3-month treasury bills and re-openings of benchmark bonds. (The 7-year bond has not been used as a benchmark bond since February, given that the bond yield curve now extends 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.

LCY corporate bonds outstanding in Singapore were up 33.0% y-o-y as of end-June, following 31.1% growth in 1Q11, to reach SGD112 billion. The rapid expansion was the result of a 2.3% y-o-y increase in new bond issuances in 2Q11. However, the 4.7% q-o-q growth of LCY corporate bonds outstanding in 2Q11 was less than half of the 10.3% growth rate in 1Q11.

Notable issues in 2Q11 included SGD1 billion of subordinated bonds from United Overseas Bank, as well as SGD462 million from real estate developer Street Square. Water treatment systems provider Hyflux issued SGD400 million worth of bonds, while Housing and Development Board and CapitaMall Trust issued SGD350 million each.

The top 40 corporate issuers in Singapore at end-June were mainly from the financial and consumer sectors, and accounted for 49% of total corporate bonds outstanding **(Table 2).** The majority of the issuers included privately

Table 2: Top 40 Issuers of LCY Corporate Bonds in Singapore (as of June 2011)

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	6.9	5.6	Yes	No	No	Financial
2. Capitaland	4.9	4.0	No	Yes	Yes	Financial
3. United Overseas Bank	4.6	3.8	No	Yes	Yes	Financial
4. DBS Bank Singapore	4.1	3.3	No	Yes	Yes	Financial
5. Temasek Financial I	3.6	2.9	No	Yes	No	Financial
6. Public Utilities Board	2.5	2.0	Yes	No	No	Utilities
7. SP Power Assets	2.5	2.0	No	Yes	No	Utilities
8. Land Transport Authority	2.4	1.9	Yes	No	No	Industrial
9. Oversea-Chinese Banking	2.2	1.8	No	Yes	Yes	Financial
10. CapitaMall Trust	1.7	1.4	No	Yes	Yes	Financial
11. Singapore Airlines	1.7	1.4	No	Yes	Yes	Consumer
12. F&N Treasury	1.3	1.0	No	Yes	No	Financial
13. Keppel Land	1.2	1.0	No	Yes	Yes	Financial
14. City Developments	1.1	0.9	No	Yes	Yes	Consumer
15. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
16. GLL IHT PTE	0.8	0.7	No	Yes	No	Financial
17. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
18. Capitaland Treasury	0.7	0.6	No	Yes	No	Financial
19. Sembcorp Financial Services	0.7	0.6	No	Yes	No	Industrial
20. Hyflux	0.7	0.6	No	Yes	Yes	Industrial
21. Overseas Union Enterprise	0.6	0.5	No	Yes	Yes	Consumer
22. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
23. Singtel Group Treasury	0.6	0.5	No	Yes	No	Communications
24. Neptune Orient Lines	0.6	0.5	No	Yes	Yes	Industrial
25. CapitaMalls Asia Treasury	0.6	0.4	No	Yes	No	Financial

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Table 2 *continued*

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (US$ billion)				
26. Olam International	0.6	0.4	No	Yes	Yes	Consumer
27. Capitacommercial Trust	0.5	0.4	No	Yes	Yes	Financial
28. Ascott Capital	0.5	0.4	No	Yes	No	Financial
29. Keppel Corporation	0.5	0.4	No	Yes	Yes	Diversified
30. Singapore Post	0.5	0.4	No	Yes	Yes	Industrial
31. Street Square	0.5	0.4	No	Yes	Yes	Financial
32. Hotel Properties	0.5	0.4	No	Yes	Yes	Consumer
33. ST Treasury Services	0.5	0.4	No	Yes	No	Financial
34. Joynote Limited	0.4	0.3	No	Yes	No	Financial
35. Yanlord Land Group	0.4	0.3	No	Yes	Yes	Financial
36. Savu Investments	0.4	0.3	No	Yes	No	Financial
37. Great Eastern Life Assurance	0.4	0.3	No	Yes	Yes	Financial
38. HK Land Treasury Service	0.4	0.3	No	Yes	Yes	Financial
39. Asia Pacific Breweries	0.4	0.3	No	Yes	Yes	Consumer
40. Guocoland	0.4	0.3	No	Yes	Yes	Financial
Total Top 40 LCY Corporate Issuers	**54.9**	**44.7**				
Total LCY Corporate Bonds	**112.0**	**91.2**				
Top 40 as % of Total LCY Corporate Bonds	**49.0%**	**49.0%**				

LCY = local currency.
Source: Bloomberg LP.

owned corporations and three of Singapore's statutory boards: (i) Housing and Development Board (HDB), (ii) Public Utilities Board, and (iii) Land Transport Authority. HDB has ranked as the top LCY corporate issuer in the first half of the year, with total LCY bonds outstanding of SGD6.9 billion at end-June.

Policy, Institutional, and Regulatory Developments

SGX to Trade SGS

SGX commenced trading SGS on 8 July in an effort to improve price transparency and liquidity in SGS bonds. It will also provide retail investors with a safe but higher yielding alternative to bank deposits. Prior to this development, investors could only trade SGS bonds through dealer banks. A total of 19 SGS bonds amounting to SGD74 billion are currently traded on the SGX, with maturities of 5, 7, 10, 15, and 20 years. SGX's Central Depository acts as the custodian of SGS bonds.

SGX to Begin Clearing Non-Deliverable Forwards in September

SGX announced that in September it will begin clearing non-deliverable forwards (NDFs) of emerging Asian currencies, including the People's Republic of China (PRC) renminbi, Indonesian rupiah, Indian rupee, Korean won, Malaysian ringgit, Philippine peso, and NT dollar. The move was the result of new regulations in most G-20 economies requiring that trades involving a number of previously over-the-counter (OTC) derivatives be made through a central clearinghouse in order to provide a guarantee to the counterparty if the other party defaults. Though Singapore has not announced any mandatory requirements for central clearing, the finalization of rules on derivatives clearing in the United States, European Union, and several Asian countries will likely drive the success of this service. NDFs represent a large share of the trade in emerging market currencies as a majority of them are not fully convertible outside their country of origin. In November, SGX successfully launched its first financial OTC derivatives clearing service for Singapore dollar interest rates.

MAS Announces New Capital Requirements for Singapore Banks

MAS has released new capital rules for banks in Singapore that exceed the levels established under the Basel III agreement. MAS will require Singapore-incorporated banks to have a minimum common equity Tier 1 capital adequacy ratio (CAR) of 6.5%, a Tier 1 CAR of 8.0%, and a total CAR of 10.0%, effective 1 January 2015. MAS will require Singapore-incorporated banks to meet the minimum capital adequacy requirements of Basel III by 1 January 2013, which is 2 years ahead of the Basel Committee's 2015 timeline. MAS also plans to adopt Basel III's capital standards to improve the consistency, transparency, and quality of the capital base, and to strengthen the risk coverage of bank capital rules.