

# Singapore—Update

## Yield Movements

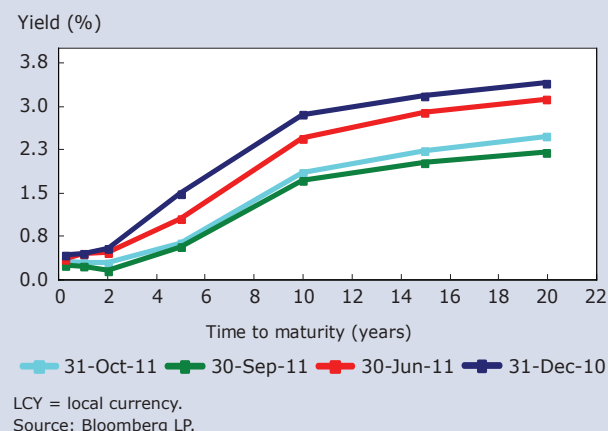
Between end-June and end-September the yield curve for local currency (LCY) government bonds in Singapore shifted downward across all maturities. Furthermore, the curve flattened as yields dropped more at the belly and the long-end of the curve than at the short-end. During the month of October, yields rose slightly higher across all maturities, but are still below end-June levels (**Figure 1**). Between end-June and end-October, yields for the 3- and 12-month tenors dropped 3 basis points (bps) and 14 bps, respectively, while yields from the belly to the long-end of the curve fell between 17 bps and 63 bps. The yield spread between 2- and 10-year maturities at end-October was about the same as the spread of 149 bps at end-September, but narrower than the spread of 188 bps at end-June.

On 14 October the Monetary Authority of Singapore (MAS) announced that it would continue with a policy of modest and gradual appreciation of the Singapore dollar while reducing the slope of the policy band to the prevailing level of the Singapore dollar nominal effective exchange rate (S\$NEER). There will be no changes to the width of the policy band and the level at which it is centered.

Headline consumer price inflation in Singapore slightly eased to 5.5% year-on-year (y-o-y) in September after rising 5.7% in August and 5.4% in July. Transport costs eased to 11.4% y-o-y in September from 12.5% in January; housing costs decelerated to 9.6% y-o-y in September from 9.9% y-o-y in August; while food price inflation was slightly higher at 3.1% y-o-y in September from 3.0% y-o-y in August. Core inflation, which excludes private road transportation and accommodation costs, stood at 2.1% in September. Core inflation is expected to ease in 2012 and headline inflation is expected to stay elevated in the near term.

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded 6.1% y-o-y in 3Q11, an improvement from 1.0% growth in 2Q11. The increase in the rate of economic

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



growth in 3Q11 was due to a turnaround in the manufacturing sector, particularly the biomedical manufacturing subsector. The manufacturing sector expanded 14.2% y-o-y in 3Q11 after posting a 5.6% decline in the previous quarter. The construction sector posted marginal growth of 0.3% in 3Q11, while the services sector expanded 3.7% following 4.0% growth in 2Q11. MTI expects Singapore's gross domestic product (GDP) growth to average 5.0% for the whole of 2011.

## Size and Composition

The total amount of outstanding LCY bonds increased 11.2% y-o-y to SGD242.9 billion (US\$185.4 billion) at end-September (**Table 1**). Outstanding Singapore Government Securities (SGS) bills and bonds rose 5.8% y-o-y to SGD135.5 billion. However, on a quarter-on-quarter (q-o-q) basis, outstanding LCY bonds fell 0.8% in 3Q11, with government bonds declining 3.7% as SGD6.8 billion worth of SGS bonds matured in July against only SGD3.8 billion of new issuance in July–September. Issuance of SGS bonds dropped 15.6% y-o-y and 26.9% q-o-q in 3Q11.

On the other hand, SGS bills outstanding have remained flat at SGD57.9 billion since January, with

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

	Amount (billion)						Growth Rate (%)							
	Jun-11		Jul-11		Aug-11		Jun-11		Jul-11		Aug-11		Sep-11	
	SGD	US\$	SGD	US\$	SGD	US\$	y-o-y	q-o-q	m-o-m	y-o-y	m-o-m	y-o-y	q-o-q	m-o-m
Total	244.8	199.3	239.2	198.7	240.1	199.3	15.3	4.1	(2.3)	0.4	11.2	(0.8)	1.2	
Government	138.5	112.7	133.9	111.2	133.9	111.2	8.1	3.9	(3.3)	-	5.8	(2.2)	1.2	
Bills	57.9	47.1	57.9	48.1	57.9	48.1	9.0	-	-	-	6.2	-	-	
Bonds	80.6	65.6	76.0	63.1	76.0	63.1	7.5	6.9	(5.7)	-	5.4	(3.7)	2.1	
Corporate	106.3	86.5	105.3	87.5	106.2	88.2	26.3	4.3	(0.9)	0.8	18.8	1.0	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 *AsianBondOnline* 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.

y-o-y growth slowing to 6.2% at end-September from 9.0% at end-June.

Meanwhile, outstanding LCY corporate bonds increased 18.8% y-o-y to SGD107.4 billion at end-September, down from the 26.3% y-o-y growth posted at end-June. On a q-o-q basis, outstanding LCY corporate bonds inched up 1.0% at end-September.

Notable issues in 3Q11 included the Housing and Development Board's SGD600 million 10-year bond in July, SGD400 million 3-year bond in August, and SGD625 million 5-year bond and SGD650 million 10-year bond in September. Also, Joynote issued SGD320 million worth of 7-year bonds and United Overseas Land sold SGD300 million worth of 3-year bonds.

The top 30 corporate issuers in Singapore are mainly from the financial and consumer sectors, and accounted for 46.9% of total corporate bonds outstanding at end-September (**Table 2**). The Housing and Development Board remained the biggest issuer with SGD8.8 billion of outstanding bonds at the end of 3Q11, followed by CapitaLand and Temasek Financial I with outstanding amounts of SGD4.9 billion and SGD3.6 billion, respectively.

## Rating Changes

In August, Standard & Poor's (S&P) affirmed Singapore's AAA long-term and A-1+ short-term sovereign credit ratings, with a stable outlook for both (**Table 3**).

## Policy, Institutional, and Regulatory Developments

### MAS Announces New Capital Requirements for Singaporean Banks

MAS released new capital rules for banks in Singapore that exceed the levels established under the Basel III agreement. Effective 1 January 2015, 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%. In addition, MAS will require Singapore-

**Table 2: Top 30 LCY Corporate Issuers in Singapore** (as of September 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	8.8	6.7	Yes	No	No	Financial
2. Capitaland	4.9	3.7	No	Yes	Yes	Financial
3. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
4. United Overseas Bank	3.3	2.5	No	Yes	Yes	Financial
5. DBS Bank Singapore	3.0	2.3	No	Yes	Yes	Financial
6. SP Power Assets	2.5	1.9	No	Yes	No	Utilities
7. Land Transport Authority	2.4	1.8	Yes	No	No	Industrial
8. Public Utilities Board	2.1	1.6	Yes	No	No	Utilities
9. Oversea-Chinese Banking	2.0	1.6	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	0.9	No	Yes	Yes	Financial
13. City Developments	1.1	0.8	No	Yes	Yes	Consumer
14. CapitaMall Trust	1.0	0.8	No	Yes	Yes	Financial
15. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
16. Hyflux	0.9	0.7	No	Yes	Yes	Industrial
17. Joynote Limited	0.9	0.7	No	Yes	No	Financial
18. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
19. Overseas Union Enterprise	0.8	0.6	No	Yes	Yes	Consumer
20. GLL IHT PTE	0.8	0.6	No	Yes	No	Financial
21. Olam International	0.8	0.6	No	Yes	Yes	Consumer
22. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
23. Capitaland Treasury	0.7	0.6	No	Yes	No	Financial
24. Sembcorp Financial Services	0.7	0.5	No	Yes	No	Industrial
25. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
26. Neptune Orient Lines	0.6	0.4	No	Yes	Yes	Industrial
27. CapitaMalls Asia Treasury	0.6	0.4	No	Yes	No	Financial
28. United Overseas Land	0.6	0.4	No	Yes	Yes	Financial
29. Singapore Post	0.5	0.4	No	Yes	Yes	Industrial
30. Keppel Corporation	0.5	0.4	No	Yes	Yes	Diversified
<b>Total Top 30 LCY Corporate Issuers</b>	<b>50.4</b>	<b>38.5</b>				
<b>Total LCY Corporate Bonds Outstanding</b>	<b>107.4</b>	<b>82.2</b>				
<b>Top 30 as % of Total LCY Corporate Bonds Outstanding</b>	<b>46.9%</b>	<b>46.9%</b>				

LCY = local currency.  
Source: Bloomberg LP.

**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.

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 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 capital rules for banks.