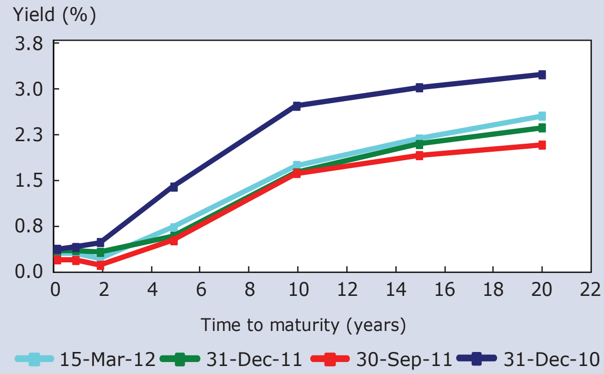
Singapore—Update

Yield Movements

The yield curve for local currency (LCY) government bonds in Singapore rose across all maturities between end-September and end-December 2011. Between end-December and 15 March, the yield curve steepened as yields fell at the short-end on the back of easing inflationary pressures, and rose from the belly to the long-end **(Figure 1)**. Between end-December and 15 March, yields for the 3- and 12-month tenors dropped 5 basis points (bps) each, while yields for the 2-year maturity fell 10 bps. Meanwhile, yields for the 5-, 10-, 15-, and 20-year tenors rose 14, 12, 9, and 19 bps, respectively. The yield spread between the 2- and 10-year maturities widened to 151 bps in 15 March from 129 bps at end-December and 149 bps at end-September.

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



LCY = local currency.
Source: Bloomberg LP.

Consumer price inflation in Singapore eased to 4.6% y-o-y in February from 4.8% in January and 5.5% in December as food and services inflation moderated. For the full-year 2011, consumer price inflation was 5.2%. In its policy statement in April, the Monetary Authority of Singapore (MAS) said that external inflationary pressures are likely to be sustained due to higher oil prices. MAS revised its inflation forecast for 2012 from 2.5–3.5% to 3.5–4.5%. MAS announced that it will continue with the policy of a modest and gradual appreciation, and will slightly increase the slope of the policy band of the Singapore dollar Nominal Effective Exchange Rate (S$NEER). Also, MAS is restoring a narrower policy band.

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded 3.6% y-o-y in 4Q11, down from 6.0% in the previous quarter. On a seasonally adjusted and annualized quarter-on-quarter (q-o-q) basis, Singapore's gross domestic product (GDP) contracted 2.5% in 4Q11, a reversal of the 2.0% growth rate reported in 3Q11. Growth in the manufacturing sector slowed to 9.2% y-o-y in 4Q11 from 13.7% in 3Q11, while growth in the construction sector was slightly higher in 4Q11 at 2.9% from 2.4% in the previous quarter. Growth among service producing industries weakened to 2.1% in 4Q11 from 3.6% in 3Q11. The finance and insurance sector and the transportation and storage sector posted lower 4Q11 growth rates of 3.5% and 2.4%, respectively, from 11.6% and 5.1% in 3Q11. For the full-year 2011, Singapore's GDP expanded 4.9%, significantly lower than growth of 14.8% registered in 2010. MTI is maintaining a 1.0%–3.0% growth forecast for 2012 amid the bleak global economic outlook.

Size and Composition

The total amount of LCY bonds outstanding surged 29.6% y-o-y to SGD245.6 billion (US$189.4 billion) at end-December, as the MAS started issuing MAS bills in April **(Table 1)**. Outstanding Singapore Government Securities (SGS) bills and bonds rose 4.7% y-o-y and 2.2% q-o-q to SGD138.5 billion. This figure, however, does not include the special issues of SGS for the Singapore Central Provident Fund, which amounted to SGD176.1 billion in 2010.

Issuance of SGS bonds increased 3.7% y-o-y and 9.5% q-o-q in 4Q11. MAS also started issuing

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

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-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	246.2	188.3	243.4	194.0	245.6	191.6	245.6	189.4	12.7	4.0	(1.2)	0.9	13.1	(0.2)	0.02
Government	152.3	116.5	153.0	122.0	153.6	119.9	153.5	118.4	18.9	5.8	0.5	0.4	16.0	0.8	(0.1)
Central Bank Bills	135.5	103.6	137.6	109.7	138.0	107.7	138.5	106.8	5.8	(2.2)	1.5	0.3	4.7	2.2	0.4
Central Gov't Bonds and Bills	16.8	12.9	15.4	12.3	15.6	12.2	15.0	11.6	–	211.1	(8.3)	1.3	–	(10.7)	(3.8)
Corporate	93.9	71.8	90.4	72.0	92.0	71.8	92.1	71.0	3.8	1.0	(3.8)	1.8	8.6	(1.9)	0.2

– = not applicable, 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. Government bonds and bills does not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund (CPF).
3. Bloomberg LP end-of-period LCY–US$ rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.

Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

MAS bills in April—as mentioned above—as part of its money market operations. Outstanding MAS bills increased from SGD5.4 billion at end-June to SGD15.0 billion at end-December.

Meanwhile, outstanding LCY corporate bonds increased 8.6% y-o-y to SGD92.1 billion at end-December, up from the 3.8% y-o-y growth posted at end-September. On a q-o-q basis, outstanding LCY corporate bonds slightly fell 1.9% at end-December.

Notable issues during 4Q11 included the Temasek Financial III's SGD790 million zero-coupon, guaranteed 3-year exchangeable bond in October and another SGD500 million zero-coupon, guaranteed 2-year exchangeable bond in December. Also, the Housing and Development Board issued SGD600 million worth of 7-year bonds in November and Global Logistics Properties sold SGD600 million worth of perpetual bonds in December.

The top 30 corporate issuers in Singapore accounted for about 54% of total LCY corporate bonds outstanding at end-December, mostly from the financial and consumer sectors **(Table 2)**. The Housing and Development Board remained the biggest issuer, with SGD9.1 billion of outstanding bonds at end-4Q11, followed by CapitaLand and Temasek Financial I, with outstanding amounts of SGD4.9 billion and SGD3.6 billion, respectively.

Ratings

In March, Moody's reaffirmed Singapore's Aaa long-term LCY and foreign currency (FCY), and senior unsecured issuer ratings **(Table 3)**. According to Moody's, Singapore's Aaa ratings are supported by the high level of economic resiliency brought about by its rapid economic growth, rising per capita income, and strong institutions. Moody's also cited Singapore's high level of private savings and conservative fiscal policies, which allows the government to maintain a strong balance sheet to provide ample cushion against exogenous shocks.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore (as of end-December 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	9.1	7.0	Yes	No	No	Financial
2. Capitaland	4.9	3.8	No	Yes	Yes	Financial
3. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
4. United Overseas Bank	3.3	2.6	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. Temasek Financial III	1.3	1.0	No	Yes	No	Financial
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. Singtel Group Treasury	0.9	0.7	No	Yes	No	Communications
18. Singapore Airlines	0.8	0.6	No	Yes	No	Communications
19. Overseas Union Enterprise	0.8	0.6	No	Yes	Yes	Consumer
20. Olam International	0.8	0.6	No	Yes	Yes	Consumer
21. GLL IHT PTE	0.8	0.6	No	Yes	No	Financial
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. Ascott Capital	0.6	0.4	No	Yes	No	Financial
28. United Overseas Land	0.6	0.4	No	Yes	Yes	Financial
29. Capitamalls Asia Treasury	0.6	0.4	No	Yes	No	Financial
30. Global Logistic Properities	0.5	0.4	No	Yes	Yes	Diversified
Total Top 30 LCY Corporate Issuers	**50.1**	**38.7**				
Total LCY Corporate Bonds	**92.1**	**71.0**				
Top 30 as % of Total LCY Corporate Bonds	**54.4%**	**54.4%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for the Singapore

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aaa	AAA	AAA
Outlook	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

SGX Introduces Dual Currency Trading

In March, the Singapore Exchange (SGX) introduced dual currency trading that enables the trading of listed securities in two different currencies. Dual-currency listed shares will be consolidated in investors' central depository accounts. The introduction of dual currency trading is aimed at improving cost efficiency by allowing investors to trade FCY-denominated securities in their LCY.

MAS Announces Initiatives to Improve LCY Corporate Debt Market

MAS Managing Director Ravi Menon announced in March three initiatives to improve efficiency and liquidity in Singapore's LCY corporate debt market. These initiatives include (i) providing swap liquidity to primary dealer banks handling SGD-denominated debt issuances for foreign companies; MAS will support swap transactions at market-determined prices to develop swap market liquidity for longer tenors; (ii) partnering with the industry in the creation of a lending platform for SGD-denominated corporate debt securities from which market players will be allowed to borrow securities for market making; and (iii) initiating a price discovery platform targeted for completion in the second half of the year. This platform aims to improve transparency in the corporate bond market and provide reliable mark-to-market prices to allow market participants to contribute end-of-day prices for a range of SGD-denominated corporate bonds.

BNM and MAS Sign MOU to Enhance Domestic Liquidity

In January, Bank Negara Malaysia (BNM) and MAS signed a memorandum of understanding (MOU) to strengthen their cooperation in carrying out domestic liquidity management and enhance the liquidity of financial institutions in both countries. The cross-border collateral agreement allows eligible financial institutions in Singapore to pledge ringgit or MYR-denominated government and central bank securities to obtain Singapore dollar liquidity from MAS. Likewise, eligible financial institutions in Malaysia may pledge Singapore dollars or SGD-denominated government securities to obtain ringgit liquidity from BNM.

MAS Implements New Regulatory Framework for CRAs

In January, MAS implemented a new regulatory framework to govern credit rating agencies (CRAs). Under the new framework, the provision of credit rating services will be regulated under the Securities and Futures Act (SFA), consequently requiring CRAs to be licensed under SFA's Capital Markets Services. MAS will also introduce a new code of conduct for CRAs in conjunction with the establishment of the new regulatory regime.