

Singapore

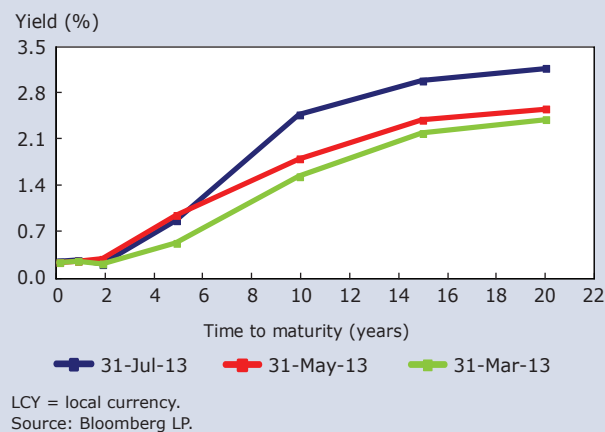
Yield Movements

Between end-July and end-May, the yield curve for Singapore's local currency (LCY) government bonds rose at the longer-end but remained stable at the shorter-end, resulting in a steepening of the curve (**Figure 1**). Yields declined 8 basis points (bps) for both the 2- and 5-year tenors. Yields at the longer-end of the curve—including 10-, 15-, and 20-year tenors—rose between 59 bps and 66 bps. As a result, the yield spread between 2- and 10-year tenors widened to 225 bps at end-July from 151 bps at end-May.

On 15 July, Moody's announced its decision to downgrade the outlook for Singapore's banking system from stable to negative due to a recent period of rapid loan growth and rising real estate prices. According to Moody's, Singapore's banking system has been operating in a favorable low interest rate environment amid strong economic growth. With the risk of a turn in the interest rate cycle, Moody's views the trends of asset inflation and credit growth as vulnerabilities that are likely to lead to credit costs rising from their current low base.

According to the Ministry of Trade and Industry (MTI), Singapore's economy expanded 3.8% year-on-year (y-o-y) in 2Q13 after posting nearly flat growth of 0.2% in 1Q13. On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, the economy grew 15.5% in 2Q13, up substantially from 1.7% in the previous quarter. In 2Q13, growth in the construction sector eased to 5.1% y-o-y from 5.8% in 1Q13, while the services sector expanded at an accelerated pace of 5.5% y-o-y from 2.7% in the previous quarter. The manufacturing sector expanded 0.2% y-o-y in 2Q13 after contracting 6.7% in 1Q13. MTI also announced that it has upgraded the gross domestic product (GDP) growth forecast for 2013 from 1.0%–3.0% to 2.5%–3.5%.

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



Consumer price inflation in Singapore climbed to 1.8% y-o-y in June from 1.6% in May. This was mainly due to petrol pump prices, which increased with the recent pick-up in global oil prices. In addition, healthcare costs rose 4.3%, housing and recreation prices each advanced 3.0%, and education costs grew 2.9%. On a month-on-month (m-o-m) basis, consumer price inflation eased slightly to 0.2% in June from 0.4% in May.

Size and Composition

The size of Singapore's LCY bond market stood at SGD303 billion (US\$239 billion) at end-June, representing modest growth of 2.1% q-o-q (**Table 1**). On a y-o-y basis, the bond market grew 14.7%, driven by both the government and corporate sectors of the bond market

Government Bonds. LCY government bonds outstanding at end-June rose 1.9% q-o-q and 14.9% y-o-y to SGD187 billion. Growth in the government bond market was largely driven by a substantial increase in Monetary Authority of Singapore (MAS) bills, which have been issued since April 2011 as part of MAS' money market operations. In 2Q13, the stock of MAS bills rose

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|-------------------------------|------------------------------|------|------|------|------|------|-----------------|-------|-------|-------|
| | 2Q12 | | 1Q13 | | 2Q13 | | 2Q12 | | 2Q13 | |
| | SGD | US\$ | SGD | US\$ | SGD | US\$ | q-o-q | y-o-y | q-o-q | y-o-y |
| Total | 264 | 209 | 297 | 239 | 303 | 239 | 2.0 | 11.6 | 2.1 | 14.7 |
| Government | 163 | 129 | 184 | 148 | 187 | 148 | 0.8 | 13.3 | 1.9 | 14.9 |
| Central Govt. Bills and Bonds | 143 | 113 | 147 | 118 | 138 | 109 | (0.8) | 3.0 | (6.1) | (3.4) |
| MAS Bills | 20 | 16 | 37 | 30 | 50 | 39 | 13.3 | – | 33.3 | 143.1 |
| Corporate | 101 | 80 | 113 | 91 | 116 | 91 | 3.9 | 8.8 | 2.5 | 14.5 |

() = negative, – = not applicable, LCY = local currency, MAS = Monetary Authority of Singapore, 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. Government bills and bonds do 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.

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

33.3% q-o-q and 143.1% y-o-y to SGD50 billion. Meanwhile, outstanding Singapore Government Securities (SGSs), comprising treasury bills and bonds, fell 6.1% q-o-q and 3.4% y-o-y.

Corporate Bonds. Singapore's LCY corporate bonds outstanding were estimated to stand at SGD116 billion at end-June, expanding 2.5% q-o-q and 14.5% y-o-y.

At end-June, the amount of LCY bonds outstanding of the top 30 corporate bond issuers in Singapore reached SGD64.1 billion, representing 55.4% of the total corporate bond market (**Table 2**). The Housing and Development Board ranked as the top corporate issuer in Singapore with outstanding bonds valued at SGD14.4 billion, followed by DBS Bank with bonds outstanding of SGD5.0 billion. The third largest corporate issuer was CapitaLand—one of the largest real estate and real estate fund management companies headquartered in Singapore—with a total bond stock amounting to SGD4.8 billion.

Corporate issuers from the financial sector dominated the list of the top 30 LCY corporate bond issuers in Singapore. Other major issuers were from the utilities, industrial, real estate, telecommunications, transportation, and energy sectors. Only three companies on the list were state-owned firms.

Corporate bond issuance reached SGD3.8 billion in 2Q13, down from SGD4.1 billion in 1Q13. A total of 26 bond series were issued by 25 companies during 2Q13, with maturities ranging from 1 year to 10 years, and coupon rates between 1.0% and 7.125%. Two perpetual bonds were also issued in 2Q13. **Table 3** lists notable corporate bonds issued in 2Q13.

Policy, Institutional, and Regulatory Developments

MAS Introduces Debt Servicing Framework for Property Loans

On 28 June, MAS announced its plan to introduce a total debt servicing ratio framework for all property loans granted by financial institutions to individuals. This will require financial institutions to take into consideration borrowers' other outstanding debt obligations when granting property loans in order to strengthen credit underwriting practices among financial institutions and encourage financial prudence among borrowers. MAS will also refine rules related to the application of the existing loan-to-value (LTV) limits on housing loans. These refinements seek to ensure the effectiveness of the LTV limits that were put in place to cool demand in the housing market. In particular, they aim to prevent circumvention of the tighter LTV limits on second and subsequent housing loans.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Singapore

| Issuers | Outstanding Amount | | State-Owned | Listed Company | Type of Industry |
|---|-------------------------|--------------------------|-------------|----------------|--------------------|
| | LCY Bonds (SGD billion) | LCY Bonds (US\$ billion) | | | |
| 1. Housing and Development Board | 14.4 | 11.4 | Yes | No | Financial |
| 2. DBS Bank | 5.0 | 3.9 | No | Yes | Financial |
| 3. CapitaLand | 4.8 | 3.8 | No | Yes | Financial |
| 4. United Overseas Bank | 4.5 | 3.6 | No | Yes | Financial |
| 5. Temasek Financial I | 3.6 | 2.8 | No | No | Financial |
| 6. Oversea-Chinese Banking | 2.7 | 2.1 | No | Yes | Financial |
| 7. SP PowerAssets | 2.4 | 1.9 | No | No | Utilities |
| 8. Public Utilities Board | 2.1 | 1.7 | Yes | No | Utilities |
| 9. Land Transport Authority | 1.8 | 1.4 | Yes | No | Industrial |
| 10. GLL IHT Pte | 1.8 | 1.4 | No | No | Real Estate |
| 11. Olam International | 1.6 | 1.3 | No | Yes | Consumer |
| 12. Keppel Corp | 1.5 | 1.2 | No | Yes | Industrial |
| 13. Mapletree Treasury Services | 1.3 | 1.1 | No | No | Financial |
| 14. Overseas Union Enterprise | 1.3 | 1.0 | No | Yes | Consumer |
| 15. Temasek Financial III | 1.3 | 1.0 | No | No | Financial |
| 16. Neptune Orient Lines | 1.3 | 1.0 | No | Yes | Industrial |
| 17. City Developments | 1.3 | 1.0 | No | Yes | Consumer |
| 18. CapitaMalls Asia Treasury | 1.1 | 0.9 | No | No | Financial |
| 19. Keppel Land | 1.1 | 0.9 | No | Yes | Real Estate |
| 20. PSA Corporation | 1.0 | 0.8 | No | No | Consumer |
| 21. CapitaMall Trust | 1.0 | 0.8 | No | Yes | Financial |
| 22. F&N Treasury Pte | 1.0 | 0.8 | No | No | Financial |
| 23. Hyflux | 1.0 | 0.8 | No | Yes | Industrial |
| 24. Singtel Group Treasury | 0.9 | 0.7 | No | No | Telecommunications |
| 25. Singapore Airlines | 0.8 | 0.6 | No | No | Transportation |
| 26. Swiber Holdings | 0.8 | 0.6 | No | Yes | Energy |
| 27. Global Logistic Properties | 0.8 | 0.6 | No | Yes | Industrial |
| 28. CapitaLand Treasury | 0.7 | 0.6 | No | No | Financial |
| 29. Joynote | 0.7 | 0.6 | No | No | Financial |
| 30. Sembcorp Financial Services | 0.7 | 0.6 | No | No | Industrial |
| Total Top 30 LCY Corporate Issuers | 64.1 | 50.5 | | | |
| Total LCY Corporate Bonds | 115.7 | 91.3 | | | |
| Top 30 as % of Total LCY Corporate Bonds | 55.4% | 55.4% | | | |

LCY = local currency.

Notes:

1. Data as of end-June 2013.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg data.

Table 3: Notable LCY Corporate Bond Issuance in 2Q13

| Corporate Issuers | Coupon Rate (%) | Issued Amount (SGD million) |
|-----------------------|-----------------|-----------------------------|
| Capitaland Ltd. | | |
| 7-year bond | 1.85 | 1,300 |
| TML Holdings Pte Ltd. | | |
| 5-year bond | 4.25 | 350 |
| GLL IHT Pte Ltd. | | |
| perpetual bonds | 4.70 | 200 |
| 7-year bond | 4.10 | 125 |
| ABJA Investment | | |
| 10-year bond | 4.95 | 300 |
| Tiger Airways | | |
| perpetual bond | 2.00 | 220 |
| Swiber Holdings Ltd. | | |
| 4-year bond | 7.13 | 160 |

LCY = local currency.
Source: Bloomberg LP.

BOJ and MAS Sign Cross-Border Collateral Arrangement

On 26 July, the Bank of Japan (BOJ) and MAS established a cross-border collateral arrangement to enhance financial stability in Singapore. Under the arrangement, eligible financial institutions operating in Singapore may obtain Singapore dollar liquidity from MAS by pledging Japanese government securities. This widens the range of acceptable collateral in MAS' liquidity facility and permits greater flexibility in the liquidity management of eligible financial institutions, including Japanese banks, operating in Singapore. This collaboration reinforces BOJ and MAS' commitment to the long-standing economic and financial relationship between Japan and Singapore.