

Singapore

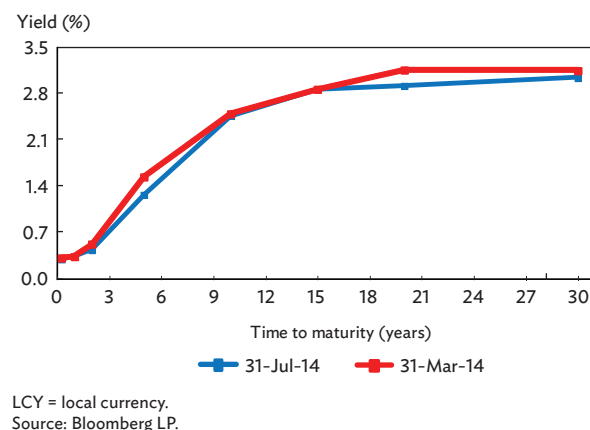
Yield Movements

Between end-March and end-July, local currency (LCY) government bond yields in Singapore fell for most tenors (**Figure 1**). The largest drops in yields were noted for the 5-year maturity, which shed 27 basis points (bps), and the 20-year tenor, which fell 24 bps. The yield spread between the 2- and 10-year maturities widened to 202 bps at end-July from a spread of 196 bps at end-March.

Slight upticks in prices of goods were noted in 2Q14, although overall inflation has remained benign. Consumer price inflation rose 2.5% year-on-year (y-o-y) in April, and 2.7% in May, before easing to 1.8% in June and 1.2% in July. The Monetary Authority of Singapore (MAS), however, expects inflation to ease further in the rest of the year, and estimates inflation to range between 1.5% and 2.0% in 2014.

Economic growth slowed to 2.4% y-o-y in 2Q14 from 4.8% in 1Q14. Growth in the manufacturing sector eased to 1.5% y-o-y, a significant drop from 9.9% growth in 1Q14, due mainly to a decline in electronics output and a slowdown in transport engineering output. Growth in the construction sector also moderated to 4.4% y-o-y from 6.4% in 1Q14. Services industries recorded slower growth in 2Q14, expanding 2.6% y-o-y compared with 3.9% in 1Q14. On a seasonally adjusted quarter-on-quarter (q-o-q) basis, gross domestic product (GDP) grew a marginal 0.1% in 2Q14.

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



The Ministry of Trade and Industry expects the economy to grow modestly in 2014, revising its annual GDP growth forecast downward to a range of 2.5%–3.5%. It also noted that global growth has remained weak and cited that uncertainties remain over the pace of the United States Federal Reserve's exit from its accommodative monetary policy stance.

Size and Composition

The outstanding size of LCY bonds in Singapore climbed to SGD307 billion (US\$247 billion) at end-June on modest growth of 2.5% q-o-q and 2.0% y-o-y (**Table 1**).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	SGD	US\$	SGD	US\$	SGD	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	301	238	300	239	307	247	2.0	14.0	2.5	2.0
Government	187	148	183	146	189	152	1.9	14.9	3.3	1.1
SGS Bills and Bonds	138	109	109	87	100	80	(6.1)	(3.4)	(8.0)	(27.3)
MAS Bills	50	39	74	59	89	72	33.3	143.1	19.9	79.8
Corporate	114	90	117	93	118	95	2.2	12.6	1.1	3.6

() = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, SGS = Singapore Government Securities, 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. SGS bills and bonds do not include the special issue of SGS held by the Singapore Central Provident Fund (CPF).

3. Bloomberg LP end-of-period LCY-US\$ rates are used.

4. Growth rates are calculated from LCY base and do not include currency effects.

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

Government Bonds. LCY government bonds grew 3.3% q-o-q and 1.1% y-o-y to reach SGD189 billion at end-June. Growth was mainly driven by increases in the stock of MAS bills, which were issued for the first time in April 2011 as a new tool for money market

operations. The stock of MAS bills climbed 19.9% q-o-q and 79.8% y-o-y to SGD89 billion. Issuance of MAS bills was up during the quarter, rising 5.9% q-o-q and 31.3% y-o-y.

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	19.3	15.5	Yes	No	Financial
2.	United Overseas Bank	5.1	4.1	No	Yes	Financial
3.	DBS Bank	3.3	2.6	No	Yes	Financial
4.	Temasek Financial I	3.6	2.9	No	No	Financial
5.	SP PowerAssets	2.4	1.9	No	No	Utilities
6.	CapitaLand	2.3	1.9	No	Yes	Financial
7.	Public Utilities Board	2.1	1.7	Yes	No	Utilities
8.	GLL IHT	1.8	1.5	No	No	Real Estate
9.	Land Transport Authority	1.8	1.4	Yes	No	Industrial
10.	City Developments	1.6	1.3	No	Yes	Consumer
11.	Keppel	1.5	1.2	No	Yes	Industrial
12.	Olam International	1.4	1.1	No	Yes	Consumer
13.	Singapore Airlines	1.3	1.0	No	No	Transportation
14.	Neptune Orient Lines	1.3	1.0	No	Yes	Industrial
15.	Hyflux	1.3	1.0	No	Yes	Industrial
16.	Keppel Land	1.1	0.9	No	Yes	Real Estate
17.	CapitaMalls Asia Treasury	1.0	0.8	No	No	Financial
18.	Oversea-Chinese Banking Corp.	1.0	0.8	No	Yes	Financial
19.	PSA	1.0	0.8	No	No	Consumer
20.	Mapletree Treasury Services	1.0	0.8	No	No	Financial
21.	Singtel Group Treasury	0.9	0.7	No	No	Telecommunications
22.	DBS Group Holdings	0.8	0.6	No	Yes	Financial
23.	Temasek Financial III	0.8	0.6	No	No	Financial
24.	CMT MTN	0.8	0.6	No	No	Financial
25.	Global Logistic Properties	0.8	0.6	No	Yes	Industrial
26.	CapitaLand Treasury	0.7	0.6	No	No	Financial
27.	Joynote	0.7	0.6	No	No	Financial
28.	Overseas Union Enterprise	0.7	0.6	No	Yes	Consumer
29.	Sembcorp Financial Services	0.7	0.6	No	No	Industrial
30.	SMRT Capital	0.7	0.6	No	No	Financial
Total Top 30 LCY Corporate Issuers		62.6	50.2			
Total LCY Corporate Bonds		118.0	94.6			
Top 30 as % of Total LCY Corporate Bonds		53.1%	53.1%			

LCY = local currency.

Notes:

1. Data as of end-June 2014.

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.

On the other hand, SGS bills and bonds outstanding, which comprised 53% of the total government bond stock, declined 8.0% q-o-q and 27.3% y-o-y in 2Q14 to SGD100 billion. Issuance of SGS bonds and bills surged more than two-fold in 2Q14 from 1Q14. However, new issuance was more than offset by SGS redemptions in 2Q14. On a y-o-y basis, issuance of SGS bills and bonds fell 76.9%.

Corporate Bonds. LCY corporate bonds outstanding reached SGD118 billion at end-June, according to *AsianBondsOnline* estimates. This represented an increase of 1.1% q-o-q and 3.6% y-o-y. At end-June, the outstanding bonds of the top 30 LCY corporate issuers in Singapore totaled SGD62.6 billion, representing 53.1% of the total LCY corporate bond market (**Table 2**).

Leading the list was the state-owned Housing and Development Board, with outstanding bonds valued at SGD19.3 billion. United Overseas Bank was in the second spot with outstanding bonds amounting to SGD5.1 billion. Completing the top three was DBS Bank with outstanding bonds amounting to SGD3.3 billion. Issuers from the financial sector dominated the list, accounting for about half of the total number of companies on the list.

In 2Q14, new issuance of corporate bonds totaled SGD4.3 billion, up 3.1% q-o-q and 13.5% y-o-y. A total of 29 new bond series were issued by 24 corporate entities. Most of the bonds issued carried medium-term maturities (5–7 years). Three new bond issues had a maturity of 10 years, one issue of 12 years, and one issue was a perpetual bond. **Table 3** lists some of the largest corporate bond issues during the quarter.

Policy, Institutional, and Regulatory Developments

MAS to Promote Renminbi Use in Singapore

On 13 June, MAS announced an initiative to promote renminbi transactions, including the provision of an overnight renminbi liquidity facility for financial institutions in Singapore beginning 1 July. The liquidity facility will provide up to CNY5 billion in overnight funds for borrowing by eligible counterparties. Singapore

Table 3: Notable LCY Corporate Bond Issuance in 2Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
5-year bond	2.22	675
Singapore Air		
7-year bond	3.15	200
10-year bond	3.75	300
United Overseas Bank		
12-year Bond	3.50	500
Yanlord Land Group		
3-year bond	6.20	400
Gallant Venture		
2-year bond	5.95	175
3-year bond	5.90	150
Swiber Holdings		
2-year bond	5.13	130
2.5-year bond	5.55	100

LCY = local currency.
Source: Bloomberg LP.

dollars, SGS bills and bonds, and MAS bills may be used as collateral for the overnight liquidity facility.

PBOC Allows Limited Cross-Border Transactions with Singapore

On 13 June, the Nanjing branch of the People's Bank of China (PBOC) announced it would allow eligible corporations, equity investment funds, and individuals in Suzhou Industrial Park (SIP) to conduct renminbi cross-border transactions with eligible participants in Singapore. The new regulation allows for the following transactions: (i) banks in Singapore can provide renminbi lending to corporates in SIP, (ii) corporates in SIP can issue renminbi bonds in Singapore, (iii) equity investment funds in SIP can directly invest in corporates in Singapore, and (iv) individuals in SIP can provide renminbi remittances to Singapore for the settlement of current account and direct investment transactions.

On 9 July, the Tianjin branch of the PBOC made a similar announcement allowing eligible corporations, equity investment funds, and individuals in Sino-Singapore Tianjin Eco-City to conduct renminbi cross-border transactions with eligible participants in Singapore.