Singapore

Yield Movements

Local currency (LCY) government bond yields in Singapore rose for all tenors except the 1-year maturity, which dipped 1 basis point (bp) between 1 June and 14 August **(Figure 1)**. Yields for Singapore Government Securities (SGS) bonds with maturities of 5-, 10-, and 15-years gained the most, rising 34, 17, and 21 bps, respectively. At the short-end of the curve, yields rose between 3 bps and 4 bps, while at the long-end, yields climbed between 7 bps and 13 bps. As a result, the spread between the 2-year and 10-year maturities widened to 154 bps in mid-August from 140 bps in early June.

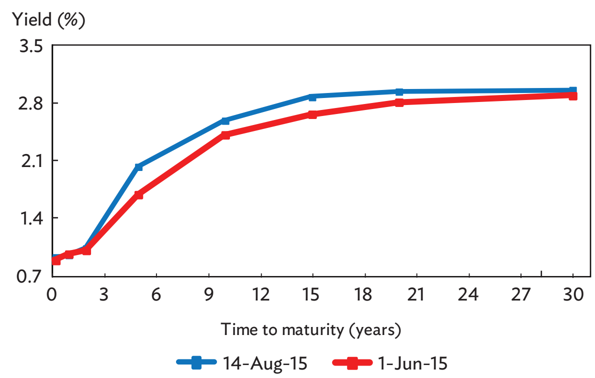
The movement in SGS bond yields mirrored that of United States (US) yields, owing to Singapore's developed market status. The rise in yields was reflective of reinforced expectations, on a slew of positive economic developments in the US, that the Federal Reserve will raise interest rates soon. In addition, increased volatility surrounding the unexpected devaluation of the Chinese renminbi provided further impetus for SGS yields to rise.

In its monetary policy statement in April, the Monetary Authority of Singapore (MAS) announced it would maintain its policy of modest and gradual appreciation of the Singapore dollar nominal effective exchange rate (S$NEER) policy band. MAS held constant the width, slope, and the level at which the S$NEER policy band is centered. In August, amid increased volatility in the foreign exchange market, MAS again maintained that its policy stance remained appropriate.

Meanwhile, Singapore's economic growth eased to 1.8% year-on-year (y-o-y) in 2Q15 from 2.8% in 1Q15. The slower growth in in the country's gross domestic product was largely due to a contraction of 4.9% y-o-y in the manufacturing sector. On a seasonally adjusted and quarterly basis, Singapore's economy contracted 4.0% in 2Q15. The Ministry of Trade and Industry revised downward its 2015 economic growth forecast to 2.0%–2.5% from 2.0%–4.0% as earlier projected.

Singapore recorded deflation for the ninth consecutive month in July as consumer prices fell 0.4% y-o-y. Five out of 10 items in the consumer price index (CPI) declined in July. Between June and July, the CPI fell 0.4%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The LCY bond market of Singapore expanded 1.7% quarter-on-quarter (q-o-q) in 2Q15 to SGD325.4 billion (US$241 billion) at end-June. Compared with quarterly growth, the LCY bond market's annual expansion was more robust at 5.9% **(Table 1)**.

Government Bonds. The stock of LCY government bonds in Singapore rose 2.8% q-o-q in June to SGD197.4 billion, driven mainly by an increase in outstanding SGS bonds and bills. By end-June, SGS bonds and bills had grown 5.3% q-o-q to reach SGD105.3 billion. New issuances of SGS bonds and bills jumped 93.8% q-o-q to SGD9.3 billion in 2Q15 from SGD4.8 billion in the previous quarter, due to the resumption of Treasury bill issuance for the first time since November 2014.

In contrast, the amount of outstanding MAS bills in 2Q15 versus 1Q15 was unchanged at SGD92.1 billion. However, on a y-o-y basis, the stock of MAS bills increased 3.3% in 2Q15 from SGD89.2 billion a year earlier. The issuance of MAS bills declined 3.2% q-o-q from SGD91.5 billion in 1Q15 to SGD88.6 billion in 2Q15. Compared with the previous quarter, the share of MAS bills issued per tenor

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	SGD	US$	SGD	US$	SGD	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**307**	**247**	**320**	**233**	**325**	**241**	**2.5**	**2.0**	**1.7**	**5.9**
Government	189	152	192	140	197	147	3.3	1.1	2.8	4.2
SGS Bills and Bonds	100	80	100	73	105	78	(8.0)	(27.3)	5.3	5.1
MAS Bills	89	72	92	67	92	68	19.9	79.8	0.0	3.3
Corporate	118	95	128	93	128	95	1.1	3.6	0.2	8.5

( ) = 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.

hardly varied, with about 73% of MAS bills issued carrying a 4-week maturity and about 20% carrying a 24-week maturity.

Corporate Bonds. Singapore's stock of LCY corporate bonds grew marginally by 0.2% q-o-q to SGD128.0 billion at end-June. The increase in outstanding LCY corporate bonds, however, was more pronounced on a y-o-y basis at 8.5%.

The 31 biggest corporate issuers in 2Q15 comprised 51.3% of total LCY corporate bonds outstanding. The Housing and Development Board led the group of top issuers with bonds outstanding worth SGD20.0 billion. The second and third spots were taken by financial firms United Overseas Bank and Temasek Financial with bonds outstanding of SGD4.1 billion and SGD3.6 billion, respectively. The top 31 corporate bond issuers for the quarter are shown in **Table 2**.

New corporate debt issued in 2Q15 reached SGD5.6 billion. There were 31 new bond series from 30 corporate entities. Seventeen of these corporate issuers were real estate companies. Meanwhile, the seven largest new corporate bond issues in 2Q15 accounted for 53.6% of the total corporate bond issuance during the quarter. The new bonds issued had tenors that ranged from 2 years to 10 years. In 2Q15, the two largest issuances were a 10-year bond worth SGD650 million from real estate firm Capitaland, and a perpetual bond worth SGD600 million from financial firm Sembcorp Financial Services. The largest corporate bonds issued in 2Q15 are shown in **Table 3**.

Three state-owned firms accounted for 18% of total LCY corporate bonds outstanding at end-June: the Housing and Development Board, Land Transport Authority, and Public Utilities Board. The Public Utilities Board had total outstanding bonds worth SGD1.75 billion, while the Land Transport Authority had aggregate bonds worth SGD1.48 billion.

Ratings Update

In April, Standard and Poor (S&P) affirmed Singapore's AAA sovereign credit rating. The outlook on the rating was stable. The country's prudent fiscal management, sound governmental policies, and political stability all contributed to S&P's stance. The ratings agency based its opinion on Singapore's ability to sustain its budget surplus and tackle issues related to its ageing population. S&P was confident that the rating would remain in place over the next 2 years, taking into account the Singapore government's ability to respond in a forward-looking manner, as well as its sufficient reserves.

Policy, Institutional, and Regulatory Developments

MAS Publishes Guidelines for D-SIBS

In April, MAS published guidelines for the identification and supervision of domestically important banks (D-SIBS), which are banks with a major role in Singapore's economy. To earn the D-SIBS distinction, a bank's interconnectedness, size, substitutability, and complexity will be considered. The identification of D-SIBS will utilize

Table 2: Top 31 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	20.04	14.9	Yes	No	Real Estate
2.	United Overseas Bank	4.05	3.0	No	Yes	Banking
3.	Temasek Financial I	3.60	2.7	No	No	Financing
4.	DBS Bank	3.30	2.4	No	Yes	Banking
5.	Capitaland	2.97	2.2	No	Yes	Real Estate
6.	SP PowerAssets	2.20	1.6	No	No	Utilities
7.	FCL Treasury	2.13	1.6	No	No	Real Estate
8.	Public Utilities Board	1.75	1.3	Yes	No	Utilities
9.	City Developments	1.74	1.3	No	Yes	Real Estate
10.	Olam International	1.72	1.3	No	Yes	Consumer Goods
11.	Keppel Corp	1.50	1.1	No	Yes	Diversified
12.	Land Transport Authority	1.48	1.1	Yes	No	Transportation
13.	GLL IHT	1.47	1.1	No	No	Financing
14.	Singapore Airlines	1.30	1.0	No	No	Transportation
15.	Hyflux	1.30	1.0	No	Yes	Utilities
16.	Neptune Orient Lines	1.28	0.9	No	Yes	Logistics
17.	Capitaland Treasury	1.15	0.9	No	No	Financing
18.	Singtel Group Treasury	1.15	0.9	No	Yes	Telecommunications
19.	Keppel Land	1.08	0.8	No	Yes	Real Estate
20.	CapitaMalls Asia Treasury	1.00	0.7	No	No	Financing
21.	Overseas Union Enterprise	1.00	0.7	No	Yes	Real Estate
22.	Oversea-Chinese Banking	1.00	0.7	No	Yes	Banking
23.	PSA	0.95	0.7	No	No	Port Operator
24.	Sembcorp Financial Services	0.94	0.7	No	No	Financing
25.	Mapletree Treasury Service	0.90	0.7	No	No	Financing
26.	National University of Singapore	0.81	0.6	No	Yes	Education
27.	DBS Group	0.80	0.6	No	Yes	Banking
28.	CMT MTN	0.80	0.6	No	No	Financing
29.	Sembcorp Industries	0.75	0.6	No	Yes	Shipbuilding
30.	Global Logistic Properties	0.75	0.6	No	Yes	Real Estate
31.	SMRT Capital	0.75	0.6	No	No	Transportation
Total Top 31 LCY Corporate Issuers		**65.63**	**48.7**			
Total LCY Corporate Bonds		**128.0**	**95.0**			
Top 31 as % of Total LCY Corporate Bonds		**51.3%**	**51.3%**			

LCY = local currency.
Notes:
1. Data as of end-June 2015.
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 2Q15

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Capitaland		
10-year bond	2.80	650
Sembcorp Financial Services		
Perpetual bond	4.75	600
FCL Treasury		
7-year bond	3.65	500
National University of Singapore		
5-year bond	2.20	400
China Jingye Construction		
2-year bond	2.95	300
Overseas Union Enterprise		
5-year bond	3.80	300
Ascott Residence		
Perpetual bond	4.68	250

LCY = local currency.
Source: Bloomberg LP.

a methodology based on existing guidelines set by MAS that take into account the principles set by the Basel Committee on Banking Supervision. Banks classified as domestically incorporated D-SIBS will have higher capital ratios, while banks tagged as having an extensive retail presence will be mandated to domestically incorporate their retail business.

Singapore Signs Third Bilateral Swap Agreement with Japan

The third bilateral swap agreement between Japan and Singapore was signed on 21 May by the Bank of Japan and MAS. The agreement aims to enhance bilateral financial cooperation, strengthen trade ties, and contribute to economic growth between the two countries by enabling authorities to exchange their local currencies for US dollars. The facility will allow Japan to swap Japanese yen worth up to US$1 billion while Singapore can exchange Singapore dollars up to US$3 billion.

MAS Launches Singapore Savings Bond

In July, MAS launched the Singapore Savings Bond, a capital-protected government bond that will be made available only to retail investors. The Singapore Savings Bond will pay tax-exempt, semi-annual interest with a step-up feature, at a rate based on the average yield of benchmark Singapore Government Securities the month prior to issuance. The 10-year bond, which will have a denomination of SGD500 and a limit of SGD100,000 for each holder, will first be issued on 1 October. MAS plans to issue a total of SGD2.4 billion of savings bonds this year.