

Singapore

Yield Movements

Local currency (LCY) government bond yields in Singapore fell for all tenors between 1 March and 15 May (**Figure 1**). The yield curve for Singapore Government Securities (SGS) flattened as yields fell more sharply at the longer-end than the short-end. Yields for 2-year maturities declined only 2 basis points (bps) during the review period. On the other end of the curve, yields dropped an average of 36 bps for the 15-year through 30-year maturities. As a result, the spread between the 2-year and 10-year tenors narrowed to 94 bps on 15 May from 120 bps on 1 March.

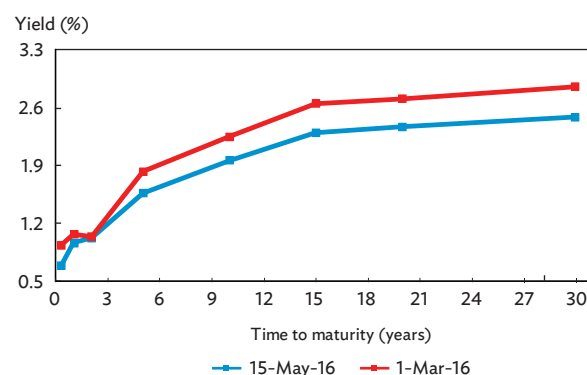
The decline in SGS bond yields largely tracked movements in yields for United States (US) Treasuries. The drop in yields was also reflective of overall weakness in the domestic economy and the persistence of deflation.

In its policy statement on 14 April, the Monetary Authority of Singapore (MAS) set the rate of appreciation of the Singapore dollar nominal effective exchange rate policy band at zero. The monetary authority kept unchanged both the width of the policy band and the level at which it is centered. MAS expects this move to support price stability over the medium-term. Market sentiment viewed the move as an easing of MAS' monetary policy stance.

Real gross domestic product growth in Singapore stood at 1.8% year-on-year (y-o-y) in the first quarter (Q1) of 2016, the same pace of growth as in the fourth quarter of 2015. The manufacturing sector contracted 1.0% y-o-y on account of lower output in the transport engineering and precision engineering clusters. Growth in the services industries eased to 1.4% y-o-y in Q1 2016. On the other hand, the construction sector grew 6.2% y-o-y. On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, Singapore's economy grew 0.2% in Q1 2016. The Ministry of Trade and Industry maintained its 2016 gross domestic product growth forecast between 1.0% and 3.0% y-o-y.

Singapore continued to post deflation in April, as consumer prices dropped 0.5% y-o-y following a 1.0% y-o-y decline in March. Private road transport costs

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



Source: Based on data from Bloomberg LP.

declined 7.1% y-o-y and the cost of electricity and gas slipped 13.9% y-o-y. MAS expects inflation to remain negative for the rest of the year and come in at between -1.0% and 0.0% for full-year 2016.

Size and Composition

The size of Singapore's LCY bond market stood at SGD314 billion (USD233 billion) at the end of March (**Table 1**). Overall growth was weak at a marginal 0.2% q-o-q. On a y-o-y basis, the LCY bond market declined by 2.2% in Q1 2016.

Government Bonds. The outstanding stock of LCY government bonds grew by a marginal 0.3% q-o-q in Q1 2016 to reach SGD184 billion at the end of March. Growth was mainly driven by an increase in the stock of SGS bonds. In Q1 2016, new issuance of SGS bonds totaled SGD4.1 billion, which comprised a reopening of 5-year SGS bonds and new issuances of 30-year SGS bonds. There were no redemptions of SGS bonds during the quarter, resulting in an overall increase in the stock of SGS bonds.

The outstanding stock of MAS bills declined to SGD74 billion at the end of March for a 4.6% q-o-q and 19.8% y-o-y decline in Q1 2016. New issuance of MAS bills was SGD71.5 billion, down 2.5% q-o-q and 21.9% y-o-y.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2015		Q4 2015		Q1 2016		Q1 2015		Q1 2016	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	321	234	313	221	314	233	(0.8)	5.3	0.2	(2.2)
Government	192	140	183	129	184	136	(1.1)	4.8	0.3	(4.4)
SGS Bills and Bonds	100	73	106	75	110	81	1.9	(8.2)	3.9	9.8
MAS Bills	92	67	78	55	74	55	(4.2)	23.8	(4.6)	(19.8)
Corporate	128	94	130	91	130	96	(0.4)	6.0	0.2	1.1

() = negative, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, SGD = Singapore dollar, USD = United States dollar, 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 Singapore Government Securities held by the Singapore Central Provident Fund.
3. Bloomberg LP end-of-period local currency-USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.

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

Corporate Bonds. Based on *AsianBondsOnline* estimates, the outstanding stock of LCY corporate bonds reached SGD130 billion at the end of March, up 0.2% q-o-q and 1.1% y-o-y.

The 30 largest LCY corporate bond issuers had combined outstanding bonds amounting to SGD67.2 billion at the end of March, accounting for a 51.7% share of the aggregate corporate bond stock (**Table 2**). The largest corporate bond issuer was the government's Housing and Development Board with outstanding bonds worth SGD20.1 billion. In the second spot was another state-owned agency, the Land Transport Authority, with total bonds outstanding of SGD4.0 billion. In the third spot was United Overseas Bank with total bonds valued at SGD3.9 billion.

While the top two issuers were state-owned agencies, only one other government entity was on the list of the top 30 issuers in Singapore, which comprised a diverse set of issuers from the banking, finance, real estate, transportation, and utilities sectors.

New issuance of LCY corporate debt reached SGD3.2 billion at the end of March, reflecting a decline of 14.8% q-o-q and a gain of 67.1% y-o-y. A total of 14 companies tapped the bond market for funding needs during Q1 2016, issuing a total of 17 new corporate bond series. The largest issuance in Q1 2016 was the Housing and Development Board's 7-year bond worth SGD1,000 million. It was followed by DBS Group Holdings dual-tranche bond sale worth SGD730 million. Notable corporate bond issues in Q1 2016 are presented in **Table 3**.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore and the People's Bank of China Renew Bilateral Currency Swap Agreement

In March, MAS and the People's Bank of China renewed their bilateral currency swap arrangements for an additional 3 years. The arrangement provides up to CNY300 billion of liquidity for eligible financial institutions operating in Singapore.

Monetary Authority of Singapore Allows Corporate Bond Issuers to Tap Retail Market

In May, MAS issued two regulations allowing corporate bond issuers to tap the retail market. Corporate issuers may issue bonds through the Bond Seasoning Framework, which allows firms who met the criteria set by the Singapore Exchange to sell bonds to retail investors. Wholesale bonds issued by these issuers may be re-denominated in smaller lots and offered for sale to retail investors through the secondary market 6 months after the listing of the bonds. Issuers may offer additional bonds targeted for retail investors without a prospectus.

Corporate issuers may also issue bonds through the Exempt Bond Issuer Framework, which allow issuers with higher eligibility criteria under the Bond Seasoning Framework to offer bonds to retail investors without a prospectus.

As an incentive, the Ministry for Finance will grant tax concessions for eligible issuers who issue bonds under these frameworks.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Singapore

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (SGD billion)	LCY Bonds (USD billion)			
1.	Housing and Development Board	20.1	14.9	Yes	No	Real Estate
2.	Land Transport Authority	4.0	2.9	Yes	No	Transportation
3.	United Overseas Bank	3.9	2.9	No	Yes	Banking
4.	Temasek Financial I	3.6	2.7	No	No	Finance
5.	DBS Bank	3.3	2.4	No	Yes	Banking
6.	CapitaLand	3.0	2.2	No	Yes	Real Estate
7.	FCL Treasury	2.1	1.6	No	No	Real Estate
8.	SP PowerAssets	1.9	1.4	No	No	Utilities
9.	Olam International	1.7	1.3	No	Yes	Consumer Goods
10.	Keppel	1.7	1.3	No	Yes	Diversified
11.	Public Utilities Board	1.7	1.2	Yes	No	Utilities
12.	DBS Group	1.5	1.1	No	Yes	Banking
13.	Oversea-Chinese Banking	1.5	1.1	No	Yes	Banking
14.	City Developments	1.4	1.1	No	Yes	Real Estate
15.	Neptune Orient Lines	1.3	0.9	No	Yes	Logistics
16.	Hyflux	1.2	0.9	No	Yes	Utilities
17.	CapitaLand Treasury	1.2	0.9	No	No	Finance
18.	Singtel Group Treasury	1.2	0.9	No	No	Finance
19.	Mapletree Treasury Services	1.1	0.8	No	No	Finance
20.	GLL IHT	1.1	0.8	No	No	Finance
21.	CapitaMalls Asia Treasury	1.0	0.7	No	No	Finance
22.	Singapore Airlines	1.0	0.7	No	No	Transportation
23.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
24.	CMT MTN	0.9	0.7	No	No	Finance
25.	National University of Singapore	0.9	0.7	No	Yes	Education
26.	Ascendas REIT	0.8	0.6	No	Yes	Finance
27.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
29.	Global Logistic Properties	0.8	0.6	No	Yes	Real Estate
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		67.2	49.8			
Total LCY Corporate Bonds		129.9	96.4			
Top 30 as % of Total LCY Corporate Bonds		51.7%	51.7%			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.

Notes:

1. Data as of end-March 2016.

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 Local Currency Corporate Bond Issuance in Q1 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
7-year bond	2.50	1,000
DBS Group Holdings		
5-year bond	2.78	480
12-year bond	3.80	250
Ascendas		
5-year bond	2.97	100
7-year bond	3.50	200
10-year bond	3.50	75
Singtel Group Treasury		
7-year bond	2.90	250
Mapletree Treasury Services		
3-year bond	2.92	200

Q1 = first quarter, SGD = Singapore dollar.
Source: Bloomberg LP.