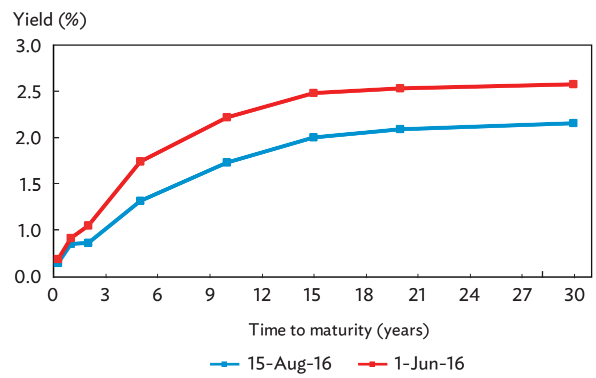
Singapore

Yield Movements

Local currency (LCY) government bond yields in Singapore fell for all tenors between 1 June and 15 August **(Figure 1)**. The yield curve for Singapore Government Securities (SGS) flattened as yields continued to decline, with yields falling more sharply at the longer-end than the shorter-end of the curve. During the review period, yields for bonds with 1-year maturities and below declined an average of 5 basis points (bps). Yields for bonds with 2-year maturities dropped 19 bps, while yields fell an average of 45 bps for the 5-year through 30-year maturities. The spread between the 2-year and 10-year tenors narrowed to 87 bps on 15 August from 117 bps on 1 June.

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



Source: Based on data from Bloomberg LP.

The yields for SGS bonds declined on increased demand, especially as the United States (US) Federal Reserve has continued to delay its much-anticipated interest rate hike, while the fallout from the United Kingdom's vote to exit the European Union has sent jitters through financial markets, causing investors to seek safe havens. The yield spread between 10-year Singapore bonds and 10-year US Treasuries declined from 38 bps on 1 June to 18 bps on 15 August. Continued weakness in global demand, which negatively affects export-oriented economies such as Singapore, and the persistence of deflation also contributed to the drop in bond yields.

Singapore's gross domestic product (GDP) grew 2.1% year-on-year (y-o-y) during the second quarter (Q2) of 2016, a rate of expansion that was unchanged from the first quarter (Q1). The manufacturing sector recorded positive growth of 1.1% y-o-y in Q2 2016, a reversal from the 0.5% y-o-y decline in Q1 2016, while construction sector growth moderated to 3.3% y-o-y in Q2 2016 from 4.0% y-o-y in Q1 2016. The services sector registered growth of 1.4% y-o-y in Q2 2016, down from 1.7% y-o-y in the previous quarter. On a quarter-on-quarter (q-o-q) and seasonally adjusted annualized basis, GDP expanded 0.3% in Q2 2016, a slight improvement from 0.1% growth in Q1 2016.

The Ministry of Trade and Industry has narrowed Singapore's 2016 GDP growth forecast range to 1%–2% from 1%–3%, mainly due to external factors such as a weaker global outlook following the British referendum to leave the European Union, weaker growth momentum in the US, and a continued slowdown in investments and economic restructuring in the People's Republic of China.

Consumer prices fell 0.7% y-o-y in July, which was unchanged from June and also the 21st consecutive month of deflation. The continued contraction in transportation costs and housing and utilities costs accounted for most of the decline. The Monetary Authority of Singapore (MAS) noted the slowdown in housing rentals stemming from the large supply of new residential units available this year, the likelihood that low global oil prices will persist given ample supply and low global demand, and expectations of a lower wage-growth trajectory as the domestic labor market eases. These factors will continue to contribute to deflation in Singapore, which MAS is forecasting at between –1.0% and 0.0% for full-year 2016.

Size and Composition

Singapore's LCY bonds outstanding were SGD314 billion (USD233 billion) at the end of June **(Table 1)**. Growth remained sluggish in Q2 2016, inching up a mere 0.2% q-o-q. On a y-o-y basis, the LCY bond market contracted 4.9%.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2015		Q1 2016		Q2 2016		Q2 2015		Q2 2016	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**330**	**245**	**314**	**233**	**314**	**233**	**3.0**	**5.5**	**0.2**	**(4.9)**
Government	197	147	184	136	182	135	2.8	4.2	(1.1)	(8.0)
SGS Bills and Bonds	105	78	110	81	109	81	5.3	5.1	(0.5)	3.7
MAS Bills	92	68	74	55	73	54	0.0	3.3	(1.9)	(21.3)
Corporate	133	99	130	96	133	98	3.4	7.4	2.0	(0.3)

( ) = negative, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second quarter, SGD = Singapore dollar, SGS = Singapore Government Securities, 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.

Government Bonds. LCY government bonds outstanding decreased 1.1% q-o-q to SGD182 billion at the end of June as the outstanding stocks of SGS bills and bonds and MAS bills posted q-o-q decreases. In Q2 2016, SGS bond issuance amounted to SGD6.4 billion, mainly due to a reopening of a 7-year SGS bond and new issuances of 10-year SGS bonds. SGD4.2 billion of SGS bills were redeemed in Q2 2016, which nearly balanced out the SGD4.5 billion worth of SGS bills that were issued during the quarter.

The outstanding stock of MAS bills declined 1.9% q-o-q in Q2 2016 to SGD73 billion. In y-o-y terms, the stock of MAS bills declined 21.3% from SGD92 billion in Q2 2015. New issuance of MAS bills amounted to SGD69.7 billion, reflecting a drop of 2.5% q-o-q and 21.3% y-o-y.

Corporate Bonds. Based on *AsianBondsOnline* estimates, the outstanding stock of LCY corporate bonds reached SGD133 billion at the end of June, up 2.0% q-o-q but down 0.3% y-o-y.

At the end of June, the top 30 largest LCY corporate bond issuers accounted for a combined SGD68 billion worth of notes, or a 51.3% share of the total corporate bond stock **(Table 2)**. Singapore's Housing and Development Board topped the list with outstanding bonds worth SGD20.4 billion. United Overseas Bank was a distant second with total bonds valued at SGD4.7 billion. Temasek Financial I, a wholly owned financing subsidiary of state-owned investment company Temasek Holdings, had total bonds outstanding of SGD3.6 billion.

Among the 30 largest corporate bond issuers, 4 were state-owned agencies, while the rest comprised a diverse set of issuers from the banking, consumer goods, education, finance, real estate, transportation, and utilities sectors.

A downside development in the LCY bond market in Q2 2016 concerns Swiber Holdings, a large Singapore oil services company, which in August defaulted on its coupon payments for SGD150 million worth of notes maturing in August 2018 and with a coupon rate of 6.5%. Despite being able to redeem bonds worth SGD130 million due in June and SGD75 million worth of bonds due in July, Swiber Holdings applied to be placed under judicial management review. Four SGD-denominated notes worth SGD460 million and one renminbi-denominated note worth CNY450 million remain to be paid. The global downturn in the oil and gas industry since 2014 has led to a shortage of projects for energy services firms, which in turn puts strain on their coupon and loan payments. With more notes from Swiber Holdings and other oil and gas industry firms due to mature in 2016–2017, it remains to be seen how the bond market and banking industry will accommodate this stress.

In Q2 2016, a total of 22 companies issued new LCY corporate debt amounting to SGD4.6 billion, reflecting a 41.3% q-o-q rise but a decline of 18.4% y-o-y. The largest issuance in Q2 2016 was United Overseas Bank's perpetual bond worth SGD750 million. It was followed by the Housing and Development Board's 5-year bond sale worth SGD675 million. **Table 3** presents the notable corporate bond issues in Q2 2016.

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	20.4	15.2	Yes	No	Real Estate
2.	United Overseas Bank	4.7	3.5	No	Yes	Banking
3.	Temasek Financial I	3.6	2.7	Yes	No	Finance
4.	Land Transport Authority	3.5	2.6	Yes	No	Transportation
5.	Capitaland	3.0	2.2	No	Yes	Real Estate
6.	DBS Bank	2.7	2.0	No	Yes	Banking
7.	FCL Treasury	2.4	1.8	No	No	Finance
8.	SP Powerassets	1.9	1.4	No	No	Utilities
9.	Hyflux	1.7	1.3	No	Yes	Utilities
10.	Olam International	1.7	1.3	No	Yes	Consumer Goods
11.	Keppel Corporation	1.7	1.3	No	Yes	Diversified
12.	Public Utilities Board	1.7	1.2	Yes	No	Utilities
13.	City Developments Limited	1.6	1.2	No	Yes	Real Estate
14.	DBS Group Holdings	1.5	1.1	No	Yes	Banking
15.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
16.	Neptune Orient Lines	1.3	1.0	No	Yes	Transportation
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.	Capitamalls Asia Treasury	1.0	0.7	No	No	Finance
21.	Singapore Airlines	1.0	0.7	No	Yes	Transportation
22.	Ascendas REIT	1.0	0.7	No	Yes	Finance
23.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
24.	GLL IHT	0.9	0.7	No	No	Real Estate
25.	CMT MTN	0.9	0.7	No	No	Finance
26.	National University of Singapore	0.9	0.7	No	No	Education
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		**68.0**	**50.5**			
Total LCY Corporate Bonds		**132.6**	**98.4**			
Top 30 as % of Total LCY Corporate Bonds		**51.3%**	**51.3%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of end-June 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 LP data.

Table 3: Notable Local Currency Corporate Bond Issuance in Q2 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
United Overseas Bank		
Perpetual bond	4.00	750
Housing and Development Board		
5-year bond	1.75	675
Hyflux		
Perpetual bond	6.00	500
Starhub		
10-year bond	3.55	300
Perennial Real Estate Holdings		
4-year bond	4.55	280
Mapletree Logistics Trust		
Perpetual bond	4.18	250
FCL Treasury		
10-year bond	4.25	250

Q2 = second quarter, SGD = Singapore dollar.
Source: Bloomberg LP.

Ratings Update

On 29 August, RAM Ratings affirmed Singapore's global- and Association of Southeast Asian Nations-scale sovereign ratings of $_{g}AAA_{(pi)}$ and $_{sea}AAA_{(pi)}$, respectively. Both ratings were given a stable outlook. RAM Ratings cited Singapore's strong external position, robust financial profile, sound institutional framework, and stable political governance as the main reasons for the affirmation. The rating comes amid a backdrop of slower economic growth due to a weak external environment and domestic structural challenges posed by labor shortages and an aging population.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore's Renminbi Investments Included in Official Foreign Reserves

MAS announced that it would include renminbi financial investments as part of its Official Foreign Reserves beginning in June. MAS cited the following reasons for this move: (i) the People's Republic of China having taken significant steps to liberalize foreign institutional investors' access to its foreign exchange and securities markets, and (ii) the International Monetary Fund's announcement that it will include the renminbi in the Special Drawing Rights basket of currencies beginning in October.

Singapore Launches First Listed Private Equity Bonds

Astrea III, which is ultimately backed by Singapore's state-owned Temasek Holdings, successfully launched a series of private equity bonds in June. The bonds are backed by 34 private equity funds with interests in more than 590 companies, the first-of-its-kind bond series to be listed in Singapore. The issued bonds are designed to make private equity more accessible to a wider range of institutional and individual investors. The issuance amounted to USD510 million and comprised four classes of 10-year bonds—A-1 (SGD228 million), A-2 (USD170 million), B (USD100 million), and C (USD70 million)—ordered according to seniority and maturity, and with interest rates of 3.90%, 4.65%, 6.50%, and 9.25%, respectively. Class A-1 bonds are redeemable starting in year 3, while Class A-2 bonds can be redeemed starting in year 5.

Singapore Exchange in SGD153 Million Deal to Buy Baltic Exchange

Singapore Exchange (SGX) and the Baltic Exchange Limited (Baltic Exchange) announced on 22 August a SGD153 million deal for SGX to acquire Baltic Exchange. The deal is expected to be completed by November. The acquisition will enable SGX to diversify into the commodities and shipping finance markets; allow SGX to develop new products, benchmarks, and services; and strengthen Singapore's role as a preferred location for the trading and settlement of shipping contracts.