Singapore

Yield Movements

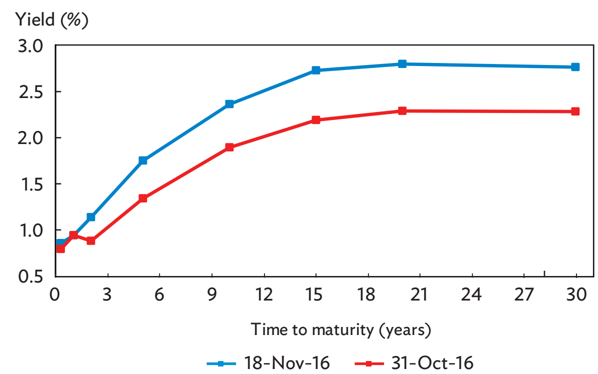
Local currency (LCY) government bond yields rose for all tenors between 31 October and 18 November **(Figure 1)**. Yields for securities with maturities of less than a year increased 6 basis points (bps) while yields for bonds with 1-year maturity remain unchanged. Yields for bonds with 2-year through 5-year maturities rose an average of 33 bps, while yields for 10-year through 30-year maturities rose an average of 50 bps. The spread between the 2-year and 10-year tenors widened from 101 bps on 31 October to 122 bps on 18 November.

Yields at the longer end of the curve for Singapore Government Securities (SGSs) bonds rose higher than at the shorter end. The uneven rise was mainly due to investor uncertainty regarding United States (US) short- and long-term economic policies of the next US administration, and stronger anticipation of a US Federal Reserve rate hike in response to the congressional testimony of the Federal Reserve chair on 17 November signaling that an increase is imminent.

In its second biannual monetary policy statement on 14 October, the Monetary Authority of Singapore (MAS) maintained its policy stance, which has been in place since April 2016, keeping the slope of the Singapore dollar nominal exchange rate policy band at zero and leaving the width and the level at which it is centered unchanged. The decision was made amid a slowing Singapore economy, contracting export sector, and the backdrop of weak global demand. The MAS noted that its neutral policy stance will persist for an extended period to ensure price stability in the medium-term and to offer continued support for the weak economy.

According to the Ministry of Trade and Industry's advance estimates, Singapore's gross domestic product (GDP) for the third quarter (Q3) of 2016 eased to 0.6% year-on-year (y-o-y) from 2.0% y-o-y in the second quarter (Q2) of 2016. The slowdown was mainly due to contractions in the manufacturing and service sectors of 1.1% y-o-y and 0.1% y-o-y, respectively, a reversal from growth of 1.4% y-o-y and 1.2% y-o-y in Q2 2016. On a seasonally adjusted and annualized basis, GDP contracted 4.1% quarter-on-quarter (q-o-q) in Q3 2016 after expanding 0.2% in Q2 2016. GDP for full-year 2016 is expected to come in at the lower end of the 1.0%–2.0% forecast range, with the outlook for 2017 forecast to be only slightly better.

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



Source: Based on data from Bloomberg LP.

Consumer prices fell 0.2% y-o-y in September, the 23rd consecutive month of deflation, primarily due to a continued decline in private road transportation costs and housing and utility costs. The decline largely reflects the ample global oil supply amid weak demand. While on the domestic side, inflationary pressures have been tempered by slack in the labor market. Preliminary estimates by the Ministry of Manpower showed total employment shrinking by 3,300 in Q3 2016, noting it was only the second quarter in which employment has contracted since the global financial crisis. The slowdown in employment will gradually weaken domestic inflationary pressures. The MAS projects inflation of about –0.5% in 2016 and 0.5%–1.5% in 2017, which is in line with an expected rise in global oil prices.

Size and Composition

LCY bonds outstanding in Singapore expanded to SGD315 billion (USD231 billion) at the end of September from SGD314 billion (USD233 billion) at the end of June, reflecting a gain of 0.4% q-o-q and a decline of 0.7% y-o-y **(Table 1)**. Compared with Q2 2016, the outstanding stock of corporate LCY bonds slightly increased, while the stock of SGS bonds declined. Only short-term MAS bills trended upward.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**318**	**223**	**314**	**233**	**315**	**231**	**(3.9)**	**(1.1)**	**0.4**	**(0.7)**
Government	188	132	182	135	183	134	(5.0)	(3.6)	0.6	(2.6)
SGS Bills and Bonds	103	72	109	81	107	78	(2.3)	1.7	(2.0)	4.0
MAS Bills	85	60	73	54	76	56	(8.0)	(9.4)	4.6	(10.5)
Corporate	130	91	133	98	133	97	(2.2)	2.9	0.1	2.0

( ) = negative, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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 amounted to SGD183 billion at the end of September, increasing 0.6% q-o-q and declining 2.6% y-o-y. The q-o-q increase was mainly due to the 4.6% q-o-q rise in the outstanding stock of MAS bills to SGD76 billion. However, in y-o-y terms, the stock of MAS bills declined 10.5% from SGD85 billion as of September 2015. New issuance of MAS bills amounted to SGD79.2 billion in Q3 2016, reflecting a rise of 13.6% q-o-q but a drop of 3.8% y-o-y.

The outstanding stock of SGS bills and bonds decreased 2.0% q-o-q, largely due to the redemption of SGD7.7 billion worth of SGS bonds in Q3 2016, exceeding the SGD5.5 billion of SGS bonds issued in the same quarter.

Corporate Bonds. The outstanding stock of LCY corporate bonds amounted to SGD133 billion at the end of September, up 0.1% q-o-q and 2.0% y-o-y.

In Q3 2016, the top 30 largest LCY corporate bond issuers accounted for a combined SGD68.7 billion worth of notes, or a 51.8% share of the total corporate bond stock **(Table 2)**. Singapore's Housing and Development Board remained atop the list with SGD21.9 billion worth of outstanding bonds. United Overseas Bank was a distant second with 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.

Affecting the LCY corporate bond market is the weak global demand that led to the slump in commodity prices beginning in 2014, with the effects now being felt across Singapore's oil and gas services industry. In November 2015, Singapore-listed and Indonesia-based firm PT Trikomsel Oke missed its coupon payments, which was followed by Singapore-listed and Hong Kong, China-based firm Pacific Andes Resources Development defaulting on its bond obligations before filing for bankruptcy in July, and Singapore-based firm Swiber Holdings defaulting on its coupon payments in August before being placed under judicial management. More Singapore-based and -listed firms in maritime operations and oil and gas services—such as AusGroup, Rickmers Maritime, Macro Polo Marine, ASL Marine Holdings, and Swissco—are considering debt restructuring proposals with their bondholders. Even companies with stronger financials, such as Dyna-Mac Holdings and Cordlife Group, are conducting early note redemptions. Issuers in the high-risk, unrated LCY bond market in Singapore have been placed in the spotlight amid a prolonged slump in oil and gas prices that is expected to add to the challenge faced by commodities-related industries.

Through the end of September, a total of 12 companies had tapped the bond market for funding needs with new issuances of LCY corporate debt in Q3 2016 amounting to SGD4.1 billion, reflecting a rise of 12.6% y-o-y and

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 & Development Board	21.9	16.1	Yes	No	Real Estate
2.	United Overseas Bank	4.7	3.4	No	Yes	Banking
3.	Temasek Financial I	3.6	2.6	Yes	No	Finance
4.	Land Transport Authority	3.5	2.5	Yes	No	Transportation
5.	Capitaland	3.0	2.2	No	Yes	Real Estate
6.	FCL Treasury	2.4	1.7	No	No	Finance
7.	DBS Bank	2.2	1.6	No	Yes	Banking
8.	SP Powerassets	1.9	1.4	No	No	Utilities
9.	Olam International	1.7	1.3	No	Yes	Consumer Goods
10.	Keppel Corporation	1.7	1.2	No	Yes	Diversified
11.	Public Utilities Board	1.7	1.2	Yes	No	Utilities
12.	City Developments Limited	1.6	1.2	No	Yes	Real Estate
13.	DBS Group Holdings	1.5	1.1	No	Yes	Banking
14.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
15.	Hyflux	1.5	1.1	No	Yes	Utilities
16.	Neptune Orient Lines	1.3	0.9	No	Yes	Transportation
17.	Capitaland Treasury	1.2	0.8	No	No	Finance
18.	Mapletree Treasury Services	1.1	0.8	No	No	Finance
19.	CMT MTN	1.1	0.8	No	No	Finance
20.	Capitamalls Asia Treasury	1.0	0.7	No	No	Finance
21.	National University of Singapore	1.0	0.7	No	No	Education
22.	Singapore Airlines	1.0	0.7	No	Yes	Transportation
23.	Ascendas REIT	1.0	0.7	No	Yes	Finance
24.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
25.	GLL IHT	0.9	0.7	No	No	Real Estate
26.	Singtel Group Treasury	0.9	0.7	No	No	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		**68.7**	**50.4**			
Total LCY Corporate Bonds		**132.7**	**97.3**			
Top 30 as % of Total LCY Corporate Bonds		**51.8%**	**51.8%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of end-September 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 Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing and Development Board		
5-year bond	1.47	700
7-year bond	1.91	700
10-year bond	2.04	600
15-year bond	2.55	700
Suntec REIT		
5-year bond	1.75	300
UOL Treasury Services		
4-year bond	2.50	240
Mapletree Commercial Trust		
10-year bond	3.11	175
CMT MTN		
15-year bond	3.35	150

Q3 = third quarter, REIT = Real Estate Investment Trust, SGD = Singapore dollar.
Source: Bloomberg LP.

a decline of 10.1% q-o-q. The largest issuance in Q3 2016 was from the Housing and Development Board's multitranche bond worth SGD2.7 billion. **Table 3** presents the notable corporate bond issues in Q3 2016.

Policy, Institutional, and Regulatory Developments

Singapore's Ministry of Law Accepts Recommendations to Strengthen Debt Restructuring Framework

On 20 July, Singapore's Ministry of Law accepted the recommendations of the Committee to Strengthen Singapore as an International Centre for Debt Restructuring. The 17 recommendations cover enhancing the legal framework for restructurings, creating a restructuring-friendly ecosystem, and addressing the perception gap in Singapore's restructuring capabilities. Ultimately, the Ministry of Law envisions Singapore to be a one-stop location combining efficiency, expertise, and a strong legal framework for global companies seeking debt restructuring.

Singapore Exchange Obtains Approval to List Companies with Dual-Class Shares

In its annual report published 29 August, the Listings Advisory Committee of Singapore Exchange (SGX), an independent council of industry leaders and professionals, authorized SGX to list companies with dual-class shares if they meet required criteria subject to the committee's review and approval. Unless provided with a compelling reason, the default rule of one-share, one-vote remains for companies seeking to list with SGX. This aims to make SGX more attractive to high-quality companies, who may hold a dual-class share corporate structure, to launch their initial public offerings on SGX.

Singapore Exchange Signs Memorandum of Understanding with Industrial and Commercial Bank of China

SGX and the Industrial and Commercial Bank of China Limited, the sole renminbi-clearing bank in Singapore, signed a Memorandum of Understanding on 19 September to enhance capital market links between Singapore and the People's Republic of China. The memorandum aims to support companies from the People's Republic of China in tapping Singapore's capital markets for equity and bond financing needs, particularly real investment trusts and offshore renminbi-denominated bonds. The memorandum also aims to realize secondary market activities of renminbi-denominated contracts listed on SGX.