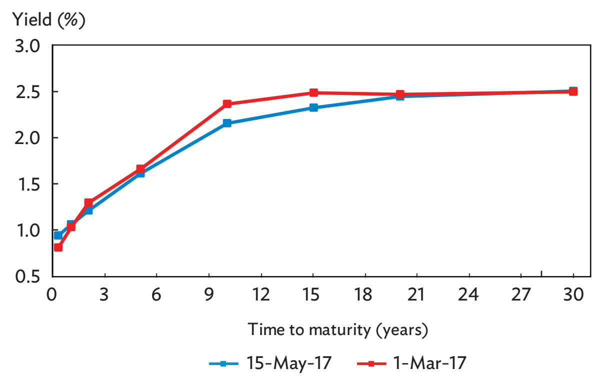
Singapore

Between 1 March and 15 May, yields for most local currency (LCY) government bonds declined in Singapore (**Figure 1**). Exceptions included the yields for 3-month Singapore Government Securities (SGS) bills, and 1-year and 30-year SGS bonds, which rose 13 basis points (bps), 3 bps, and 1 bp, respectively. Yields for securities with maturities from 2 years to 5 years declined an average of 7 bps. Yields for longer-term maturities (10–15 years) fell 18 bps on average, while the yield for the 20-year SGS bond, marginally declined by 2 bps. The 2-year and 10-year yield spread narrowed from 106 bps on 1 March to 94 bps on 15 May.

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



Source: Based on data from Bloomberg LP.

Singapore bond market yields largely tracked United States (US) bond market yield movements—yields for bonds at the long-end of the curve declined, while yields for bonds at the short-end of the curve rose. The US Federal Reserve have raised interest rates in March for the second time in 3 months, but during its policy meeting in May, interest rate was kept unchanged in a unanimous vote. Expectations of at least one rate hike for the latter half of 2017 remains as the Federal Reserve gave no dovish indications.

The Monetary Authority of Singapore (MAS), on 13 April, decided to maintain the rate of appreciation of the Singapore dollar nominal effective exchange rate policy band at zero percent, while also leaving the range of the policy band width and the level at which it is centered unchanged. MAS noted that while the continued pickup in the global economy resulted in an improved outlook for Singapore's trade-driven economy, downside risks from global policy uncertainties remain. This provided support for the neutral policy stance that MAS deems appropriate for an extended period in order to ensure price stability in the medium term.

Singapore's gross domestic product (GDP) expanded 2.7% year-on-year (y-o-y) in the first quarter (Q1) of 2017 easing from 2.9% y-o-y growth in the fourth quarter (Q4) of 2016. Growth mainly came from the manufacturing sector and service-producing industries, which expanded 8.0% y-o-y and 1.6% y-o-y in Q1 2017, respectively. Alongside the positive growth outlook, downside risks persist, such as uncertainties in the direction of policies, and the credit and financial system risks in the People's Republic of China. Singapore's GDP for 2017 is forecasted to come between 1%–3%, and likely to surpass the 2.0% growth in 2016.

In 2017, inflation is expected to gradually rise to 0.5%–1.5% from an average of –0.5% in 2016. MAS core inflation is expected to average 1%–2% in 2017, higher than the 0.9% average in 2016. The rise in inflation is largely seen to come from supply-side pressures, such as energy- and administrative-related price increases, rather than being demand-induced. MAS core inflation rose 1.7% y-o-y in April up from 1.2% y-o-y in March.

Size and Composition

Singapore's LCY bonds outstanding rose 3.5% quarter-on-quarter (q-o-q) and 6.5% y-o-y to SGD345 billion (USD247 billion) at the end of March from SGD333 billion at the end of December 2016 (**Table 1**). The increase came mainly from the rise in the outstanding stock of government bonds and central bank bills, while corporate LCY bonds only decreased marginally.

Government Bonds. The outstanding stock of LCY government bonds rose 6.1% q-o-q and 11.5% y-o-y through the end of March, expanding to SGD205 billion from SGD193 billion at the end of December 2016. On a y-o-y basis, SGS bills and bonds, and MAS bills rose 6.4% and 19.2%, respectively.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**324**	**240**	**333**	**230**	**345**	**247**	**0.2**	**0.1**	**3.5**	**6.5**
Government	184	136	193	133	205	147	0.3	(4.4)	6.1	11.5
SGS Bills and Bonds	110	81	110	76	117	84	3.9	9.8	6.2	6.4
MAS Bills	74	55	83	57	88	63	(4.6)	(19.8)	6.0	19.2
Corporate	140	104	140	97	140	100	0.2	6.5	(0.1)	(0.04)

( ) = negative, LCY = local currency, MAS = Monetary Authority of Singapore, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth 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 LCY–USD rates are used.
4. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

In Q1 2017, new issuance of MAS bills rose 10.7% q-o-q and 25.9% y-o-y to SGD90 billion. A total of SGD6.8 billion worth of SGS bills and bonds were issued in Q1 2017, while no redemptions were made.

Corporate Bonds. By the end of March 2017, the amount of outstanding LCY corporate bonds remained relatively unchanged at SGD140.2 billion, reflecting a decline of 0.1% q-o-q and 0.04% y-o-y.

The top 30 largest LCY corporate bond issuers in Singapore had an outstanding LCY bond stock of SGD69.6 billion in Q1 2017, accounting for 49.6% of all outstanding LCY corporate bonds (**Table 2**). Maintaining the top position was Singapore's Housing & Development Board with combined bonds outstanding worth SGD22.8 billion. Trailing behind was United Overseas Bank with a total of SGD5.4 billion, followed by Temasek Financial I—a subsidiary of state-owned investment company Temasek Holdings—with a total LCY bond stock of SGD3.6 billion.

The 30 largest corporate bond issuers comprised five state-owned agencies and firms from various business sectors, including banking, consumer goods, diversified holdings, education, finance, marine services, real estate, transport, and utilities sectors.

Table 3 shows the notable LCY corporate bond issuances in Q1 2017. A total of 13 firms issued LCY corporate bonds to raise an aggregate amount of SGD4.2 billion, reflecting increases of 180.0% q-o-q and 28.7% y-o-y. The largest LCY corporate bond issuance in Q1 2017 came from Singapore's Housing & Development Board with a 5-year bond sale worth SGD900 million with a coupon rate of 2.23%.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Eases Finance Company Regulations in Support of Small and Medium-Sized Enterprise Financing

In February, MAS eased business restrictions on finance companies in support of their lending operations to small and medium-sized enterprises (SMEs). Uncollateralized business loans will be raised to 25% from 10% of its capital funds. The limit on an uncollateralized business loan to a single borrower will be raised to 0.5% of capital funds from the current limit of SGD5,000. Finance companies will also be allowed to offer current account and checking services to their business customers. Finally, MAS will consider applications for any foreign merger or takeover of a finance company if the merger partner or acquirer commits to maintaining SME financing as a core business. The aim of the relaxed regulations is to enhance the ability of finance companies to provide financing for SMEs.

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	22.8	16.3	Yes	No	Real Estate
2.	United Overseas Bank	5.4	3.9	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.	FCL Treasury	2.8	2.0	No	No	Finance
6.	Capitaland	2.8	2.0	No	Yes	Real Estate
7.	SP Powerassets	1.9	1.3	No	No	Utilities
8.	Mapletree Treasury Services	1.8	1.3	No	No	Finance
9.	Olam International	1.7	1.2	No	Yes	Consumer Goods
10.	Keppel Corporation	1.7	1.2	No	Yes	Diversified
11.	DBS Group Holdings	1.5	1.1	No	Yes	Banking
12.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
13.	Singapore Airlines	1.4	1.0	No	Yes	Transportation
14.	Public Utilities Board	1.4	1.0	Yes	No	Utilities
15.	DBS Bank	1.3	0.9	No	Yes	Banking
16.	Neptune Orient Lines	1.3	0.9	No	Yes	Transportation
17.	City Developments Limited	1.2	0.9	No	Yes	Real Estate
18.	Hyflux	1.2	0.8	No	Yes	Utilities
19.	Capitaland Treasury	1.2	0.8	No	No	Finance
20.	CMT MTN	1.1	0.8	No	No	Finance
21.	GLL IHT	1.0	0.7	No	No	Real Estate
22.	National University of Singapore	1.0	0.7	No	No	Education
23.	Ascendas REIT	1.0	0.7	No	Yes	Finance
24.	Sembcorp Financial Services	1.0	0.7	No	No	Engineering
25.	Singtel Group Treasury	0.9	0.6	No	No	Finance
26.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
27.	Global Logistic Properties	0.8	0.5	No	Yes	Real Estate
28.	SMRT Capital	0.8	0.5	No	No	Transportation
29.	PSA Corporation	0.7	0.5	Yes	No	Marine Services
30.	Ezion Holdings	0.7	0.5	No	Yes	Marine Services
Total Top 30 LCY Corporate Issuers		**69.6**	**49.8**			
Total LCY Corporate Bonds		**140.2**	**100.4**			
Top 30 as % of Total LCY Corporate Bonds		**49.6%**	**49.6%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of end-March 2017.
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 the First Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing & Development Board		
5-year bond	2.23	900
United Overseas Bank		
12-year bond	3.50	750
Mapletree Treasury Services		
Perpetual bond	4.50	625
FCL Treasury		
10-year bond	4.15	450
South Beach Consortium		
4-year bond	2.83	400

SGD = Singapore dollar.
Source: Bloomberg LP.