

Singapore

Yield Movements

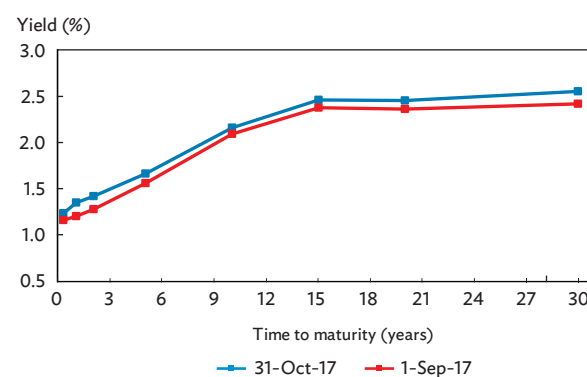
Between 1 September and 31 October, yields for Singapore's local currency (LCY) government bonds rose for all tenors (**Figure 1**). Yields of Singapore Government Securities (SGS) with 1-year, 2-year, and 30-year maturities gained the most, rising 15, 14, and 13 basis points (bps), respectively. In the belly of the curve between the 5-year and 20-year tenors, bond yields rose an average of 9 bps. At the short-end, bonds with 3-month maturities rose 7 bps. The 2-year and 10-year yield spread narrowed to 74 bps on 31 October from 81 bps on 1 September.

The rise in Singapore bond yields largely tracked the rise in the United States (US) Treasury yields. Factors contributing to the rise include the US Federal Reserve's positive outlook on the US economy, as reflected in its policy meeting on 31 October–1 November, as well as from its balance sheet normalization, which began in October. Despite leaving the policy rate on hold, the Federal Reserve expects inflation and employment to progress, among other economic conditions, making it conducive to gradually hike the federal funds rate.

Given the improving global outlook for 2017 and 2018, a robust domestic economy, and stable core inflation, the Monetary Authority of Singapore (MAS) decided on 13 October to maintain the rate of appreciation of the Singapore dollar nominal effective exchange rate policy band at zero. It also kept steady the policy band width and the level at which it is centered. However, unlike in the previous monetary policy guidance, MAS' latest policy statement gave no indication that the neutral policy stance would be maintained for an extended period, signaling a possible tightening as domestic economic conditions continue to improve.

Based on advance estimates, Singapore's economy grew 4.6% year-on-year (y-o-y) in the third quarter (Q3) of 2017 from 2.9% y-o-y in the second quarter (Q2) of 2017. Both the manufacturing and service industries supported the expansion with growth of 8.2% y-o-y and 2.6% y-o-y, respectively. On the other hand, the construction sector contracted 6.3% y-o-y in Q3 2017. Gross domestic product is forecast to grow 2%–3% in

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



Source: Based on data from Bloomberg LP.

full-year 2017, an improvement from MAS' forecast of 1%–3% in May. Based on the MAS' survey in September, Singapore's economic growth will likely be supported by expansion in the electronics sector, export growth, and regional economic growth.

Singapore's inflation remains stable. According to MAS, cost pressures from wages will be relatively subdued as improving labor market conditions begin to absorb the previous labor market slack. A mild increase in food prices is expected in the short-term, while increasing commodity prices due to rising global demand will also contribute to a slight rise in inflation. Inflation is projected to come in around 0.5% for full-year 2017 while it is projected to remain in the 0%–1% range in 2018. Meanwhile, MAS core inflation is forecast at 1.5% in 2017 and between 1% and 2% in 2018.

In September, consumer price inflation was unchanged from August at 0.4% y-o-y. The increase in the price of services in September was offset by lower road transport prices, while food inflation remained largely unchanged.

Size and Composition

At the end of September, Singapore's LCY bonds outstanding reached SGD360 billion (USD265 billion), reflecting a rise of 3.8% quarter-on-quarter (q-o-q) and 10.4% y-o-y (**Table 1**). The rise came from increases in MAS bills and SGS bonds and bills outstanding.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2016		Q2 2017		Q3 2017		Q3 2016		Q3 2017	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	326	239	347	252	360	265	0.4	0.4	3.8	10.4
Government	183	134	207	150	220	162	0.6	(2.6)	6.7	20.6
SGS Bills and Bonds	107	78	112	82	117	86	(2.0)	4.0	4.4	9.4
MAS Bills	76	56	94	69	103	76	4.6	(10.5)	9.4	36.3
Corporate	143	105	140	102	139	103	0.1	4.4	(0.4)	(2.6)

(-) = negative, LCY = local currency, 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:

- Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondsOnline* estimates.
- SGS bills and bonds do not include the special issue of Singapore Government Securities held by the Singapore Central Provident Fund.
- Bloomberg LP end-of-period LCY-USD rates are used.
- 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.

Government bonds. A 6.7% q-o-q increase in the outstanding stock of LCY government bonds brought the total to SGD220 billion at the end of September. Compared to the same period in 2016, LCY government bonds rose 20.6% y-o-y. SGS bills and bonds rose to SGD117 billion, reflecting an increase of 4.4% q-o-q and 9.4% y-o-y, while MAS bills rose to SGD103 billion, reflecting a rise of 9.4% q-o-q and 36.3% y-o-y.

SGS bills and bonds logged an increase of SGD4.9 billion as there were no redemptions in Q3 2017. Meanwhile, newly issued MAS bills rose 14.5% q-o-q and 39.6% y-o-y to SGD110.6 billion at the end of September.

Corporate bonds. Based on *AsianBondsOnline* estimates, total outstanding LCY corporate bonds in Singapore declined marginally by 0.4% q-o-q to SGD139 billion at the end of September. On a y-o-y basis, total outstanding LCY corporate bonds declined 2.6%.

At the end of September, bonds issued by the top 30 largest LCY corporate bond issuers comprised 50.0% of Singapore's total LCY corporate bonds. The three companies with the most bonds outstanding were all state-owned: Housing and Development Board (SGD23.1 billion), Temasek Financial I (SGD3.6 billion), and Land Transportation Authority (SGD3.5 billion). In the fourth spot was United Overseas Bank with SGD3.4 billion of total bonds outstanding. **Table 2** presents the corporate entities from various industries making up the list of the top 30 issuers.

Based on *AsianBondsOnline* estimates, newly issued corporate bonds amounted to SGD4.2 billion in Q3 2017. The largest issuance came from Singapore Airlines with a SGD700 million 10-year bond sold at a coupon rate of 3.13% (**Table 3**). The next largest was state-owned Housing and Development Board's 5-year bond sale worth SGD600 million at a 1.83% coupon rate. FCL Treasury and Olam International each issued perpetual bonds amounting to SGD350 million with coupon rates of 3.95% and 5.50%, respectively. In Q3 2017, new corporate bond issues contracted 9.6% q-o-q, but expanded 2.9% y-o-y.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Simplifies Regulations for Venture Capital Funds

On 20 October, MAS simplified the authorization process for managers of venture capital funds. It exempted venture capital fund managers from the capital requirements and business conduct rules imposed on other fund managers, and cancelled the requirement for 5 years of relevant experience in fund management for shareholders and representatives of the venture capital fund. In order to qualify for the simplified regime, the venture capital manager must (i) only offer to accredited and/or institutional investors, (ii) invest at least 80% of the committed capital in securities issued by nonlisted start-up firms that are no more than 10 years old, 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	23.1	17.0	Yes	No	Real Estate
2.	Temasek Financial I	3.6	2.7	Yes	No	Finance
3.	Land Transport Authority	3.5	2.6	Yes	No	Transportation
4.	United Overseas Bank	3.4	2.5	No	Yes	Banking
5.	FCL Treasury	3.2	2.4	No	No	Finance
6.	Singapore Airlines	2.8	2.1	No	Yes	Transportation
7.	Capitaland	2.8	2.1	No	Yes	Real Estate
8.	Mapletree Treasury Services	2.2	1.6	No	No	Finance
9.	SP Powerassets	1.9	1.4	No	No	Utilities
10.	Olam International	1.8	1.4	No	Yes	Consumer Goods
11.	Keppel Corporation	1.7	1.3	No	Yes	Diversified
12.	DBS Group Holdings	1.5	1.1	No	Yes	Banking
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	Public Utilities Board	1.4	1.0	Yes	No	Utilities
15.	DBS Bank	1.3	1.0	No	Yes	Banking
16.	National University of Singapore	1.3	0.9	No	No	Education
17.	City Developments Limited	1.2	0.9	No	Yes	Real Estate
18.	Hyflux	1.2	0.9	No	Yes	Utilities
19.	Capitaland Treasury	1.1	0.8	No	No	Finance
20.	Sembcorp Industries	1.0	0.7	No	Yes	Shipbuilding
21.	Ascendas REIT	1.0	0.7	No	Yes	Finance
22.	GLL IHT	1.0	0.7	No	No	Real Estate
23.	CMT MTN	0.9	0.7	No	No	Finance
24.	Singtel Group Treasury	0.9	0.7	No	No	Finance
25.	Neptune Orient Lines	0.9	0.6	No	Yes	Transportation
26.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
27.	SMRT Capital	0.8	0.6	No	No	Transportation
28.	Mapletree Commercial Trust	0.7	0.5	No	No	Real Estate
29.	Starhub	0.7	0.5	Yes	Yes	Telecommunications
30.	PSA Corporation	0.7	0.5	Yes	No	Marine Services
Total Top 30 LCY Corporate Issuers		69.8	51.4			
Total LCY Corporate Bonds		139.5	102.7			
Top 30 as % of Total LCY Corporate Bonds		50.0%	50.0%			

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

Notes:

1. Data as of end-September 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 Third Quarter of 2017

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Singapore Airlines		
10-year bond	3.13	700
Housing and Development Board		
5-year bond	1.83	600
FCL Treasury		
Perpetual bond	3.95	350
Olam International		
Perpetual bond	5.50	350
Mapletree Treasury Services		
8-year bond	2.85	300

SGD = Singapore dollar.
Source: Bloomberg LP.

(iii) allow redemptions only at the end of the fund's life and bar issuance of new subscriptions for units of the fund after the close of fund-raising.

Singapore and the People's Republic of China Strengthen Capital Market Cooperation

In a second supervisory roundtable held on 3 November, MAS and the China Securities Regulatory Commission strengthened cooperation on capital market development and supervision. In particular, both sides agreed to collaborate on facilitating the development of their derivatives markets, set up a framework in supervising fund managers, and support qualified companies based in the People's Republic of China to list in Singapore. The roundtable meeting aimed to allow for future collaboration by enabling MAS and the China Securities Regulatory Commission to have a greater understanding of each other's regulatory framework.