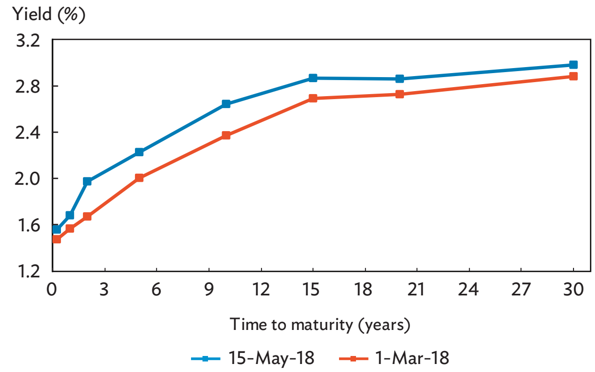
Singapore

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Singapore rose for all tenors (**Figure 1**). The yield for 2-year Singapore Government Securities (SGS) bonds increased the most at 30 basis points (bps). This was followed by yields on bonds with 5-year and 10-year maturities, which advanced 22 bps and 27 bps, respectively. The yield for the 3-month Treasury bill increased the least, gaining only 8 bps. The yield spread between the 2-year and 10-year tenors narrowed 3 bps between 1 March and 15 May.

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



Source: Based on data from Bloomberg LP.

Singapore's interest rates mainly tracked interest rate movements in the United States (US) during the review period; all tenors on the US yield curve likewise increased between 1 March and 15 May. The slower rise at the long-end of the curve signaled that investors believe long-term growth optimism remain intact. The US Federal Reserve raised benchmark interest rates last March, but investors are still expecting two to three more rate hikes this year, as indicated by the movements of futures contracts, despite low inflationary pressures.

During its policy meeting on 13 April, the Monetary Authority of Singapore (MAS) decided to increase slightly the slope of the Singapore dollar nominal effective exchange rate policy band from zero. However, the width and center of the policy band were left unchanged. The MAS cited its forecast of steady economic growth and core inflation in 2018, as well as uncertainty over the possibility of a trade war between the US and the People's Republic of China, as justification for the tightening. The MAS emphasized that the policy stance would help stabilize medium-term prices, which is consistent with a modest and gradual appreciation path for the Singapore dollar nominal effective exchange rate policy band.

Consumer price inflation in February was 0.5% year-on-year (y-o-y). It eased to 0.2% y-o-y in March and further to 0.1% y-o-y in April. The decelerating inflation mainly resulted from lower price gains for retail items, which slowed to 0.9% y-o-y in April from 1.3% y-o-y in March. Meanwhile, the MAS core inflation indicator edged down to 1.3% y-o-y from 1.5% y-o-y during the same period.

The MAS and the Ministry Trade and Industry said in their outlook that oil prices may affect inflation as global oil prices increase, but the current volatility in prices will taper in succeeding quarters as supplies respond to demand. Global food prices are also expected to increase moderately in 2018. Domestically, wage growth will pick up a faster pace, but will be countered by retail rents remaining subdued due to market competition. The MAS projects that inflation will be in the upper half of the forecast range of 0.0%–1.0%. Likewise, core inflation is expected to rise gradually in 2018, moving toward the upper half of the forecast range of 1.0%–2.0%.

The Singapore dollar fared better during the first quarter (Q1) of 2018 compared with its 2017 closing rate of 1.336 against the US dollar. The SGD–USD exchange rate stayed below this level throughout Q1 2018, reaching its strongest level of SGD1.307 per US dollar in January after the US Department of the Treasury commented that it welcomed a weaker US dollar. In April, the Singapore dollar started to depreciate even with the announcement by MAS that it would allow the Singapore dollar to gradually appreciate against the US dollar. The US dollar strengthened against the Singapore dollar, along with other Asian currencies, threatening to wipe out earlier gains. Through 15 May,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**348**	**249**	**363**	**272**	**376**	**287**	**3.5**	**7.2**	**3.7**	**8.2**
Government	205	147	222	166	230	175	6.1	11.5	3.7	12.2
SGS Bills and Bonds	117	84	116	87	121	92	6.2	6.4	4.2	3.5
MAS Bills	88	63	106	79	109	83	6.0	19.2	3.1	23.8
Corporate	143	102	141	106	146	112	(0.1)	1.5	3.8	2.5

( ) = 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.

the Singapore dollar had depreciated 0.64% year-to-date against the greenback.

Singapore's economy grew 4.4% y-o-y in Q1 2018, up from an expansion of 3.6% y-o-y in the fourth quarter of 2017. The biggest contributors to growth were the manufacturing, finance, and insurance sectors. Output in all sectors expanded in Q1 2018, except for the construction sector. The Ministry of Trade and Industry revised its gross domestic product outlook for 2018 to a range of 2.5%–3.5%, from the previously announced range of 1.5%–3.5%, due to the economy's strong performance in Q1 2018.

Size and Composition

Singapore's LCY bonds outstanding amounted to SGD376 billion (USD287 billion) at the end of March, an expansion of 3.7% quarter-on-quarter (q-o-q) and 8.2% y-o-y (**Table 1**). This was an improvement from the 3.5% q-o-q and 7.2% y-o-y growth during Q1 2017. The expansion was supported by the increase in outstanding government bills and bonds, as well as outstanding corporate bonds.

Government bonds. LCY government bonds outstanding grew 3.7% q-o-q and 12.2% y-o-y in Q1 2018, expanding to SGD230 billion at the end of March from SGD222 billion at the end of December. The expansion was driven by SGS bills and bonds which increased 4.2% q-o-q to reach a size of SGD121 billion. MAS bills also contributed to the expansion, increasing 3.1% q-o-q, amounting to SGD109 billion.

Three SGS bonds were reopened during the quarter—a 2-year, a 5-year, and a 30-year bond—all of which were oversubscribed. All MAS bill auctions in Q1 2018 were successful, with each issuance being oversubscribed as indicated by bid-to-cover ratios greater than 1.0.

Total LCY government bills and bonds issued during Q1 2018 amounted to SGD116.5 billion, comprising SGD109.4 billion of MAS bills and only SGD7.1 billion of SGS bills and bonds. In January, SGD2.2 billion worth of SGS bills were redeemed.

Corporate bonds. Outstanding LCY corporate bonds expanded 3.8% q-o-q and 2.5% y-o-y in Q1 2018, increasing to SGD146 billion from SGD141 billion in the previous quarter.

The top 30 LCY corporate bond issuers accounted for 47.8% of all corporate bonds outstanding with an aggregate total of SGD70.0 billion (**Table 2**). Singapore's Housing & Development Board (HDB) topped the list with SGD22.4 billion of outstanding bonds, which comprised 15.3% of all outstanding corporate bonds. The state-owned Land Transport Authority (LTA) was a distant second with SGD5.0 billion, representing 3.4% of all corporate bonds outstanding. There were seven state-owned corporations among the top 30 issuers, coming from the real estate, transportation, finance, utilities, and marine services industries. By sector, the real estate industry accounted for almost half (48.7%) of the corporate bonds outstanding with SGD34.1 billion. This was followed by the finance sector with SGD10.4 billion, or 14.9% of the outstanding corporate bonds.

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	22.4	17.1	Yes	No	Real Estate
2.	Land Transport Authority	5.0	3.8	Yes	No	Transportation
3.	Temasek Financial I	3.6	2.7	Yes	No	Finance
4.	Frasers Property	3.4	2.6	No	Yes	Real Estate
5.	United Overseas Bank	3.4	2.6	No	Yes	Banking
6.	Singapore Airlines	3.0	2.3	Yes	Yes	Transportation
7.	Capitaland	2.8	2.1	Yes	Yes	Real Estate
8.	Mapletree Treasury Services	2.1	1.6	No	No	Finance
9.	SP Powerassets	1.9	1.4	No	No	Utilities
10.	Keppel Corporation	1.7	1.3	No	Yes	Diversified
11.	Capitaland Treasury	1.6	1.2	No	No	Finance
12.	DBS Group Holdings	1.5	1.2	No	Yes	Banking
13.	Olam International	1.4	1.1	No	Yes	Consumer Goods
14.	Public Utilities Board	1.4	1.1	Yes	No	Utilities
15.	GLL IHT	1.4	1.0	No	No	Real Estate
16.	Hyflux	1.2	0.9	No	Yes	Utilities
17.	Singtel Group Treasury	1.2	0.9	No	No	Finance
18.	City Developments	1.1	0.9	No	Yes	Real Estate
19.	CMT MTN	1.0	0.8	No	No	Finance
20.	National University of Singapore	1.0	0.8	No	No	Education
21.	Sembcorp Industries	1.0	0.8	No	Yes	Shipbuilding
22.	Ascendas REIT	1.0	0.7	No	Yes	Finance
23.	Mapletree Commercial Trust	0.9	0.7	No	Yes	Real Estate
24.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
25.	DBS Bank	0.8	0.6	No	Yes	Banking
26.	Keppel Land International	0.7	0.6	No	No	Real Estate
27.	CCT MTN	0.7	0.6	No	No	Real Estate
28.	StarHub	0.7	0.5	No	Yes	Diversified
29.	Perennial Real Estate Holdings	0.7	0.5	No	Yes	Real Estate
30.	PSA Corporation	0.7	0.5	Yes	No	Marine Services
Total Top 30 LCY Corporate Issuers		**70.0**	**53.4**			
Total LCY Corporate Bonds		**146.4**	**111.6**			
Top 30 as % of Total LCY Corporate Bonds		**47.8%**	**47.8%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 31 March 2018.
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.

A total of SGD5.5 billion of LCY corporate bonds were issued during Q1 2018, an expansion of 38.2% q-o-q and 32.1% y-o-y. Singapore's 2018 budget for infrastructure spending called for new infrastructure bond issuance to fund projects such as the construction of Changi Airport Terminal 5, the Integrated Waste Management Facility, the KL-Singapore High Speed Rail, and the JBSingapore Rapid Transit System Link. Government-owned companies LTA and HDB accounted for 47.5% of all LCY corporate bond issuance during the quarter with a combined total of SGD2.6 billion worth of bonds to finance rail and public housing infrastructure. Notable LCY corporate bond issuances in Q1 2018 are listed in **Table 3**. The LTA issued 10-year and 30-year bonds with coupon rates of 2.75% and 3.35%, respectively, with the latter being the single largest corporate bond sale in Q1 2018 amounting to SGD1,200 million. The HDB offered 5-year and 10-year bonds with coupon rates of 2.30% and 2.32%, respectively. GLL IHT and Frasers Property both issued perpetual bonds, the former offering a SGD400 million bond with a 4.60% coupon rate and the latter issuing a SGD300 million bond with a 4.38% coupon.

Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
30-year bond	3.35	1,200
Housing and Development Board		
5-year bond	2.30	600
10-year bond	2.32	515
GLL IHT		
Perpetual bond	4.60	400
Frasers Property		
Perpetual bond	4.38	300

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS to Introduce Central Clearing for OTC Derivatives

On 2 May, the MAS announced new regulations, effective 1 October, that will require over-the-counter (OTC) derivatives to be cleared through central counterparties. The regulations are meant to mitigate the credit risk of nonstandard derivatives. The regulations will cover the widely traded Singapore and US dollar fixed-for-floating interest rate swaps, and will require banks with gross notional outstanding OTC derivative transactions exceeding USD20 billion to clear their trades with central counterparties regulated by the MAS.

Singapore and Japan to Renew Swap Arrangement

On 4 May, the MAS and the Ministry of Finance of Japan expressed their intent to renew the existing Bilateral Swap Agreement that enables both countries to swap their respective local currencies in exchange for US dollars in times of need. The two countries are also in talks to include the Japanese yen as an additional swap currency of choice. The move to renew the arrangement is for the mutual benefit of Singapore and Japan in order to facilitate financial and economic stability and promote the use of local currency in the region. The bilateral swap arrangement will expire on 21 May.

Singapore and Brunei Darussalam Sign Cooperation Agreement for Financial Innovation

On 12 May, the MAS and the Autoriti Monetari Brunei Darussalam signed an agreement to enhance innovation in financial services between the two countries. The FinTech Cooperation Agreement will help in information sharing regarding FinTech, and in promoting joint innovation projects between Singapore and Brunei Darussalam. Businesses and consumers will also benefit from the enhancement of the retail payment ecosystem between the two countries.