

Singapore

Yield Movements

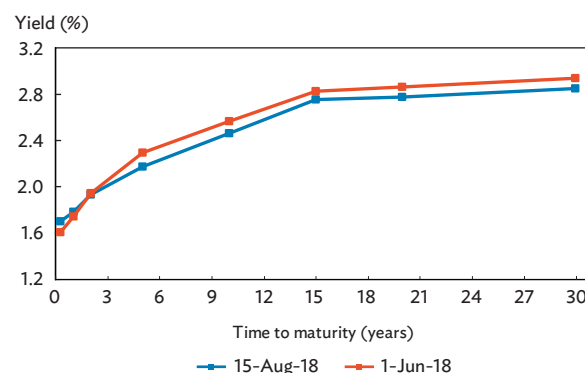
Between 1 June and 15 August, Singapore's local currency (LCY) bond yields decreased for all maturities except the 3-month and 12-month tenors, which increased 9 basis points (bps) and 4 bps, respectively (**Figure 1**). Among those that decreased, the 5-year maturity decreased the most (12 bps), followed by the 10-year maturity (10 bps). The 2-year tenor registered the smallest decrease of 1 bp. The yield spread between 2-year and 10-year government bonds contracted 9 bps during the review period.

Singapore's yields tracked interest rate movements in the United States (US) where short-term tenors increased and long-term tenors declined during the review period. Short-term rates in Singapore also increased due to tightening liquidity in the domestic banking system, as evidenced by rising loan-to-deposit ratios and a narrowing differential between the 1-month and 3-month yields. For long-term tenors, Singapore yields dropped following US Treasury yields' decline after the People's Republic of China (PRC) announced potential tariffs in response to tariffs imposed by the US on Chinese goods.

Singapore's inflation increased during the second quarter (Q2) of 2018. The country recorded inflation of 0.1% year-on-year (y-o-y) in April, which rose to 0.4% y-o-y in May and 0.6% y-o-y in June, where it remained steady in July. The Monetary Authority of Singapore (MAS) expects inflation to gradually increase in the remainder of 2018 due to faster wage growth and rising global oil and food prices. For full-year 2018, inflation is predicted to be in the upper-half of the MAS' 0%–1% forecast.

The Ministry of Trade and Industry revised its gross domestic product growth forecast for full-year 2018 to a range of 2.5%–3.5% from 1.5%–3.5% due to the strong performance of Singapore's economy during the first quarter (Q1) of 2018. However, the growth of Singapore's economy eased to 3.9% y-o-y in Q2 2018 from 4.5% y-o-y during the previous quarter. The decline was due to a slowdown in the performances of the manufacturing and services sectors. Economists expect steady, albeit slower, growth for Singapore during the second half of the year due to concerns over the housing market as the government puts in place cooling measures to curb rising

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



Source: Based on data from Bloomberg LP.

home prices. As an export-dependent economy, growth could also be dampened by a further escalation of the trade war between the PRC and the US. Uncertainties related to global trade tensions affected Singapore's equity and foreign exchange markets in Q2 2018, with the STI Index dropping to a low of 3,191.82 in June from a high of 3,615.28 in May as investors sold Singapore shares.

Similar to its regional counterparts, the Singapore dollar has not fared well in recent months against the US dollar, reaching its weakest level of SGD1.3802 per USD1 in August, down from a peak of SGD1.3073 in January. The Singapore dollar had been hovering above the SGD1.35-to-USD1 level since the second half of June as the trade war between the US and the PRC escalated. Aside from the prospects of a trade war, investors have also been bearish on the local economy amid the US Federal Reserve's tightening policy, raising the possibility of a Federal Reserve rate hike in September after holding rates steady in its August meeting.

Size and Composition

The Singapore LCY bond market grew 1.8% quarter-on-quarter (q-o-q) to SGD383 billion (USD281 billion) in 2018, up from SGD376 billion in Q1 2018 (**Table 1**). The expansion was supported by growth in LCY government bonds, compensating for the slight decline in LCY corporate bonds.

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|---------------------|------------------------------|------------|------------|------------|------------|------------|-----------------|------------|------------|------------|
| | Q2 2017 | | Q1 2018 | | Q2 2018 | | Q2 2017 | | Q2 2018 | |
| | SGD | USD | SGD | USD | SGD | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| Total | 349 | 254 | 376 | 287 | 383 | 281 | 0.4 | 8.1 | 1.8 | 9.7 |
| Government | 207 | 150 | 230 | 175 | 237 | 174 | 0.8 | 13.7 | 3.0 | 14.7 |
| SGS Bills and Bonds | 112 | 82 | 121 | 92 | 123 | 90 | (3.9) | 2.7 | 1.7 | 9.6 |
| MAS Bills | 94 | 69 | 109 | 83 | 114 | 84 | 7.2 | 30.2 | 4.5 | 20.8 |
| Corporate | 143 | 104 | 146 | 112 | 146 | 107 | (0.1) | 0.8 | (0.1) | 2.5 |

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

Government bonds. Total outstanding LCY government bonds increased 3.0% q-o-q to SGD237 billion in Q2 2018 from SGD230 billion during the previous quarter. The growth was mainly due to the expansion of outstanding MAS bills, which increased 4.5% q-o-q to SGD114 billion from SGD109 billion in Q1 2018. Outstanding Singapore Government Securities bills and bonds grew 1.7% q-o-q, with SGD123 billion outstanding in Q2 2018, up from SGD121 billion at the end of the previous quarter.

A total of SGD137.9 billion worth of government bills and bonds were issued during Q2 2018. Of these, SGD126.6 billion, or 91.8%, were MAS bills and the remaining SGD11.3 billion, or 8.2%, were Treasury bills and bonds. MAS bills increased 15.7% q-o-q while Treasury bills and bonds grew 59.2% q-o-q.

Weekly MAS bills auctions were met with robust demand in Q2 2018: the 28-, 84-, and 168-day MAS bills were always fully allocated. For most of the quarter, average yields for the 4-week MAS bills were higher than for the 8-week tenor. Toward the end of June, however, investors preferred the shortest tenor as global uncertainties worried the market.

Corporate bonds. LCY corporate bonds contracted 0.1% q-o-q in Q2 2018. On a y-o-y basis, however, corporate bonds grew 2.5% to SGD146 billion from SGD143 billion in Q2 2017.

The top 30 LCY corporate issuers accounted for SGD69.8 billion, or 47.7% of all LCY corporate bonds outstanding, at the end of June (**Table 2**). The state-owned real estate company Housing & Development Board topped the list, accounting for 15.3% of the total LCY corporate bond market with SGD22.4 billion of corporate bonds outstanding. Another state-owned company Land Transport Authority was a distant second with SGD5.0 billion of bonds outstanding, comprising 3.4% of the total LCY corporate bond market. The real estate sector dominated the top 30 corporate issuers with 50.1% share of the list's bonds outstanding at the end of June. This was followed by the finance and transportation sector with market shares of 15.4% and 12.6%, respectively.

In Q2 2018, SGD2.4 billion worth of LCY corporate bonds were issued, less than half of the corporate bonds issued the previous quarter due to a high base spurred by large issuances led by the Land Transport Authority in Q1 2018. One of the notable issuances was Housing & Development Board's SGD500 million 12-year bond with a coupon of 3.08%, which was part of its SGD32 billion Multicurrency Medium-Term Note Programme (**Table 3**). This was the longest tenor issued in Singapore in Q2 2018. Ezion Holdings, seeking to refinance its debt, had the most issuances during the quarter with 10-year, 7-year, and 6-year bonds worth SGD31 million, SGD92 million, and SGD333 million, respectively, each with a coupon rate of 0.25%. DBS Bank had the largest coupon at 7.02% for its SGD2 million 1-year bond.

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 | 16.4 | Yes | No | Real Estate |
| 2. | Land Transport Authority | 5.0 | 3.7 | Yes | No | Transportation |
| 3. | Temasek Financial I | 3.6 | 2.6 | Yes | No | Finance |
| 4. | Frasers Property | 3.4 | 2.5 | No | Yes | Real Estate |
| 5. | Singapore Airlines | 3.0 | 2.2 | Yes | Yes | Transportation |
| 6. | Capitaland | 2.8 | 2.0 | Yes | Yes | Real Estate |
| 7. | United Overseas Bank | 2.5 | 1.8 | No | Yes | Banking |
| 8. | Mapletree Treasury Services | 2.3 | 1.7 | No | No | Finance |
| 9. | SP Powerassets | 1.9 | 1.4 | No | No | Utilities |
| 10. | Keppel Corporation | 1.7 | 1.2 | No | Yes | Diversified |
| 11. | Capitaland Treasury | 1.6 | 1.2 | No | No | Finance |
| 12. | DBS Group Holdings | 1.5 | 1.1 | No | Yes | Banking |
| 13. | Olam International | 1.4 | 1.1 | No | Yes | Consumer Goods |
| 14. | Public Utilities Board | 1.4 | 1.0 | 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 | 0.8 | No | No | Finance |
| 18. | CMT MTN | 1.1 | 0.8 | No | No | Finance |
| 19. | City Developments Limited | 1.1 | 0.8 | No | Yes | Real Estate |
| 20. | National University of Singapore | 1.0 | 0.7 | No | No | Education |
| 21. | Sembcorp Industries | 1.0 | 0.7 | No | Yes | Shipbuilding |
| 22. | Ascendas | 1.0 | 0.7 | No | Yes | Finance |
| 23. | Mapletree Commercial Trust | 0.9 | 0.6 | 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. | Overseas Union Enterprise | 0.8 | 0.6 | No | Yes | Real Estate |
| 27. | SMRT Capital | 0.8 | 0.6 | No | No | Transportation |
| 28. | Suntec REIT | 0.8 | 0.6 | No | Yes | Real Estate |
| 29. | Keppel Land International | 0.7 | 0.5 | No | No | Real Estate |
| 30. | CCT MTN | 0.7 | 0.5 | No | No | Real Estate |
| Total Top 30 LCY Corporate Issuers | | 69.8 | 51.2 | | | |
| Total LCY Corporate Bonds | | 146.3 | 107.4 | | | |
| Top 30 as % of Total LCY Corporate Bonds | | 47.7% | 47.7% | | | |

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

Notes:

1. Data as of 30 June 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.

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

| Corporate Issuers | Coupon Rate (%) | Issued Amount (SGD million) |
|-----------------------------|-----------------|-----------------------------|
| Housing & Development Board | | |
| 12-year bond | 3.08 | 500 |
| Ezion Holdings | | |
| 6-year bond | 0.25 | 333 |
| 7-year bond | 0.25 | 92 |
| 10-year bond | 0.25 | 31 |
| Smart Capital | | |
| 10-year bond | 3.22 | 100 |
| DBS Bank | | |
| 1-year bond | 7.02 | 2 |

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

International Finance Corporation and Monetary Authority of Singapore Work Together to Promote Green Bonds in Asia

On 7 June, the International Finance Corporation and MAS signed a memorandum of understanding to promote green bonds in Asia and the Pacific. They will hold capacity building programs to improve awareness and knowledge of green financing issuances, and will promote international best practices and frameworks related to green bonds. Through the partnership, they hope to address climate change through the financing of low-carbon investments in the region.

Singapore Government Moves to Cool Property Market

On 5 July, in order to control the rising prices of residential properties, the Government of Singapore increased Additional Buyer's Stamp Duty rates for those buying second and subsequent residential properties and tightened loan-to-value limits for housing loans. The increased rates and tighter lending policy seek to prevent the property market from overheating, eventually requiring corrections that could destabilize the economy, especially as interest rates and the housing supply have both been rising.