

Singapore

Yield Movements

Between 1 August and 15 October, Singapore's local currency (LCY) bond yields increased for all maturities (**Figure 1**). The 5-year maturity increased the most, gaining 22 basis points (bps). This was followed by the 15-year maturity (19 bps) and the 10-year tenor (18 bps). The 2-year tenor registered the smallest increase of 12 bps. The yield spread between 2-year and 10-year government bonds expanded 6 bps during the review period.

Singapore's yields tracked interest rate movements in the United States (US), where all tenors increased during the review period. The US Federal Reserve raised interest rates most recently in September, with another increase expected before the year ends as the Federal Reserve continues its monetary policy normalization. Strong US economic data, including high economic growth and low unemployment rates, and expectations of another rate hike, contributed to the rise in interest rates.

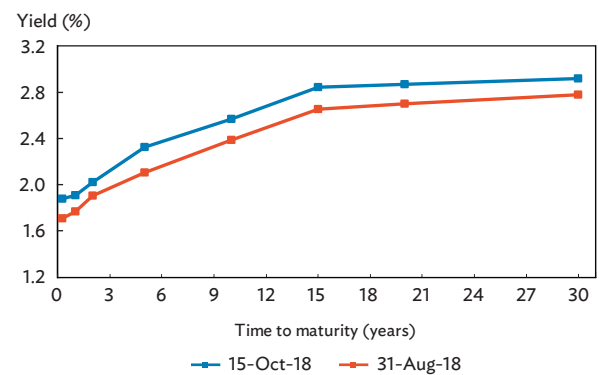
Singapore's inflation rate continued its upward trend during the third quarter (Q3) of 2018, rising to 0.6% year-on-year (y-o-y) in July and 0.7% y-o-y in August, and it remained unchanged in September. The Monetary Authority of Singapore (MAS) expects inflation to gradually increase over the remainder of 2018 due to faster wage growth and rising global oil and food prices.

On the other hand, Singapore's economic growth eased in Q3 2018 to 2.6% y-o-y from the 4.1% y-o-y growth recorded in the second quarter (Q2) of 2018. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, gross domestic product grew 4.7% in Q3 2018, up from the 1.2% growth recorded during the previous quarter.

Rising inflation and expectations of continued economic growth prompted the MAS on 12 October to slightly increase the slope of the Singapore dollar nominal effective exchange rate policy band while leaving its width and center unchanged. The move aimed to ensure price stability in the medium-term.

Regional currencies have been weakening against the US dollar, with the Singapore dollar reaching its lowest

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



Source: Based on data from Bloomberg LP.

point on 8 October, hitting SGD1.3836–USD1. However, the Singapore dollar appreciated somewhat after the latest monetary policy tightening.

In October, Singapore's Straits Times Index dropped to 3,034.31, its lowest level of the year and down from a high of 3,615.28 in May, joining global equities sell-off amid expectations of higher US interest rates and the escalating trade war between the People's Republic of China and US.

Size and Composition

The Singapore LCY bond market grew 2.0% quarter-on-quarter (q-o-q) to SGD398 billion (USD291 billion) in Q3 2018, up from SGD390 billion in Q2 2018 (**Table 1**). The expansion was supported by growth in LCY government and corporate bonds.

Government bonds. Total outstanding LCY government bonds increased 1.6% q-o-q in Q3 2018 to reach SGD241 billion at the end of September from SGD237 billion at the end of the previous quarter. The growth was mainly due to the expansion of outstanding MAS bills, which increased 3.9% q-o-q to SGD119 billion from SGD114 billion in Q2 2018. Outstanding Singapore Government Securities (SGS) bills and bonds decreased 0.6% q-o-q, with SGD122 billion outstanding at the end of September, down from SGD123 billion at the end of the previous quarter, due to maturing SGS bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2017		Q2 2018		Q3 2018		Q3 2017		Q3 2018	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	362	267	390	287	398	291	3.8	11.5	2.0	9.8
Government	220	162	237	174	241	176	6.7	20.6	1.6	9.3
SGS Bills and Bonds	117	86	123	90	122	89	4.4	9.4	(0.6)	4.4
MAS Bills	103	76	114	84	119	87	9.4	36.3	3.9	14.7
Corporate	142	105	153	113	157	115	(0.4)	(0.1)	2.5	10.7

(-) = 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:

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.

A total of SGD138.9 billion worth of government bills and bonds were issued during Q3 2018. Of these, SGD130.5 billion, or 94.0%, were MAS bills, and the remaining SGD8.4 billion, or 6.0%, were SGS bills and bonds. MAS bills increased 3.1% q-o-q, while SGS bills and bonds declined 25.7% q-o-q due to fewer issuances of SGS bonds.

Weekly MAS bills auctions were met with robust demand in Q3 2018: the 28-day, 84-day, 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. Towards the end of September, however, investors preferred the shortest-dated tenor, taking a wait-and-see stance as global events unfolded.

Corporate bonds. LCY corporate bonds expanded 2.5% q-o-q in Q3 2018. On a y-o-y basis, corporate bonds grew 10.7% to SGD157 billion from SGD142 billion in Q3 2017.

The top 30 LCY corporate issuers accounted for SGD72.7 billion, or 46.2% of all LCY corporate bonds outstanding, at the end of September (**Table 2**). The state-owned real estate company Housing & Development Board continued to top the list, accounting for 14.0% of the total LCY corporate bond market with SGD22.0 billion of corporate bonds outstanding. Fellow state-owned company Land Transport Authority was a distant second with SGD6.5 billion of bonds outstanding, comprising 4.1% of the total LCY corporate bond market.

Just like the previous quarter, the real estate sector dominated the top 30 corporate issuers with 46.9% of the top 30's total corporate bonds outstanding at the end of September. This was followed by the finance and transportation sectors with market shares of 15.4% and 14.2%, respectively.

In Q3 2018, LCY corporate bond issuances surged 174.4% to SGD6.6 billion from SGD2.4 billion issued during the previous quarter. The jump in issuance of LCY corporate bonds was due to large issuances, led by government-owned institutions.

One of the notable issuances was Land Transport Authority's SGD1,500 million 40-year bond with a coupon rate of 3.45%, which was issued under its SGD12 billion Multicurrency Medium-Term Note Programme (**Table 3**). The rare 40-year issuance is only the second time such a bond was issued in the Singapore LCY corporate bond market; the other being Temasek Holding's SGD1,000 million 40-year bond issuance in 2010. The Development Bank of Singapore Group and Oversea-Chinese Banking Corporation both issued SGD1,000 million of perpetual bonds with coupons of 3.98% and 4.00%, respectively, as part of their individual SGD30 billion Global Medium-Term Note Programme. The Housing & Development Board issued two SGD700 million bonds: a 7-year bond with a coupon of 2.63% and a 5-year bond with a 2.42% coupon. Both issuances are part of its SGD32 billion Multicurrency Medium-Term Note Programme.

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	22.0	16.1	Yes	No	Real Estate
2.	Land Transport Authority	6.5	4.7	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.	Mapletree Treasury Services	2.6	1.9	No	No	Finance
8.	DBS Group Holdings	2.5	1.9	No	Yes	Banking
9.	United Overseas Bank	2.5	1.8	No	Yes	Banking
10.	SP Powerassets	1.9	1.4	No	No	Utilities
11.	Keppel Corporation	1.7	1.2	No	Yes	Diversified
12.	Capitaland Treasury	1.6	1.2	No	No	Finance
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
15.	CMT MTN	1.3	0.9	No	No	Finance
16.	GLL IHT	1.3	0.9	No	No	Real Estate
17.	Olam International	1.2	0.9	No	Yes	Consumer Goods
18.	Singtel Group Treasury	1.2	0.8	No	No	Finance
19.	City Developments Limited	1.1	0.8	No	Yes	Real Estate
20.	Hyflux	1.1	0.8	No	Yes	Utilities
21.	National University of Singapore	1.0	0.7	No	No	Education
22.	Ascendas	1.0	0.7	No	Yes	Finance
23.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
24.	Perennial Real Estate Holdings	0.9	0.6	No	Yes	Real Estate
25.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
26.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
27.	DBS Bank	0.8	0.6	No	Yes	Banking
28.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
29.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		72.7	53.2			
Total LCY Corporate Bonds		157.2	115.0			
Top 30 as % of Total LCY Corporate Bonds		46.2%	46.2%			

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

Notes:

1. Data as of 30 September 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 Third Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
40-year bond	3.45	1,500
DBS Group		
Perpetual bond	3.98	1,000
OCBC		
Perpetual bond	4.00	1,000
Housing & Development Board		
7-year bond	2.63	700
5-year bond	2.42	700

SGD = Singapore dollar.
Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

MAS and Singapore Exchange Collaborate with Other Companies to Improve Settlement Using Blockchain

On 24 August, the MAS and the Singapore Exchange joined Anquan, Deloitte, and Nasdaq as technology partners in developing delivery-versus-payment capabilities for settling securities that use a blockchain

platform. The project aims to reduce settlement risk between buyers and sellers, and to increase operational efficiency. It will utilize distributed ledger technology developed under Project Ubin Phase 2, which decentralized interbank payment and settlement while also preserving data privacy.

MAS Introduces New Structure for Investment Funds

On 10 September, the MAS introduced a new corporate structure for investment funds called Variable Capital Company (VCC), an entity that manages local and international funds. The framework allows VCCs greater flexibility in terms of capital structure so that it can be used by both open-ended and closed-ended funds with varying investment strategies depending on their needs. VCCs, which are deemed to be cost-efficient, can be established as a standalone or an umbrella structure with multiple subfunds having different investment objectives. In order to cater to the needs of investors in global investment funds, VCCs are allowed to use different accounting standards in preparing financial statements. Finally, the framework prevents VCCs from commingling assets and liabilities between funds. These developments will help strengthen Singapore's position as a financial hub by providing full services for both local and international investors and fund managers.