

Singapore

Yield Movements

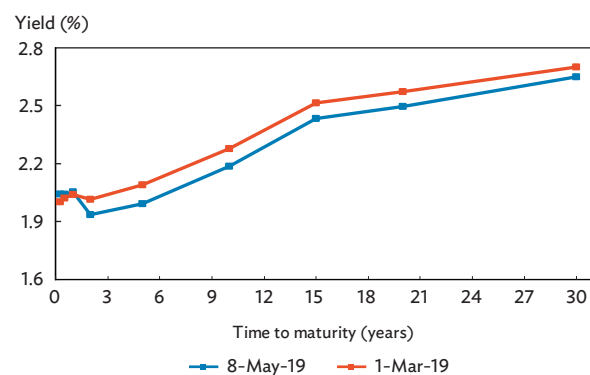
Between 1 March and 8 May, Singapore's local currency (LCY) bond yields decreased an average of 4 basis points (bps) (**Figure 1**). The 5-year tenor decreased the most, shedding 10 bps. This was followed by the 10-year tenor (9 bps) and the 15-year tenor (8 bps). On the other hand, short-term maturities registered an increase, with the 3-month tenor registering the largest increase of 4 bps. The trade war between the People's Republic of China (PRC) and the United States (US) has weakened the Singapore dollar, resulting in declining liquidity and increased borrowing costs. The yield spread between 2-year and 10-year government bonds contracted 1 bp during the review period from 26 bps on 1 March to 25 bps on 8 May.

The decline in Singapore's yields may be attributed to the prospect of slower growth in the economy. Singapore's yields tracked interest rate movements in the US, where most tenors decreased during the review period. The US Federal Reserve is expected to keep interest rates unchanged in 2019. The narrowing gap between 2-year and 10-year US government bonds, aggravated by the escalation of the trade tensions between the PRC and the US, has caused speculation that a recession in the US may be imminent.

Based on advance estimates, Singapore's economic growth eased in Q1 2019 to 1.3% y-o-y from an annual rate of 3.2% for full-year 2018. The easing growth was spurred by the decline in manufacturing output. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, gross domestic product grew 2.0% in Q1 2019, which was lower than the 2018 average of 3.2% q-o-q.

Singapore's inflation rate continued its upward trend during the first quarter (Q1) of 2019, rising to 0.6% year-on-year (y-o-y) in March from 0.4% y-o-y in January and 0.5% y-o-y in February. The Monetary Authority of Singapore (MAS) expects global oil prices to decline in 2019. Together with lower electricity prices, the MAS expects inflation to moderate, prompting it to revise downward its inflation forecast for full-year 2019 to 0.5%–1.5% from 1.0%–2.0% as earlier projected in January.

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



Source: Based on data from Bloomberg LP.

The low-inflation environment, despite easing economic growth, prompted the MAS on 12 April to maintain the current slope of the Singapore dollar nominal effective exchange rate policy band, leaving its width and center unchanged as well. The move aimed to ensure price stability in the medium-term.

The ongoing trade war between the PRC and the US has affected the currency of the trade-dependent economy. In 2019, the Singapore dollar reached its lowest point in May, hitting SGD1.3705–USD1.0 from a high of SGD1.3456–USD 1.0 in January. The effects of the tit-for-tat tariffs imposed by the PRC and the US on each other's goods are expected to continue to lead to the depreciation of the Singapore dollar.

Size and Composition

The Singapore LCY bond market grew 4.2% q-o-q in Q1 2019 to reach SGD420 billion (USD310 billion) at the end of March, up from SGD403 billion at the end of Q4 2018 (**Table 1**). The expansion was supported by growth in both the government and corporate bond sectors.

Government bonds. Total outstanding LCY government bonds increased 4.5% q-o-q in Q1 2019 to reach SGD256 billion at the end of March, up from SGD244 billion at the end of the previous quarter.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	384	292	403	295	420	310	5.7	10.3	4.2	9.4
Government	230	175	244	179	256	188	3.7	12.2	4.5	11.1
SGS Bills and Bonds	121	92	125	92	130	96	4.2	3.5	3.8	7.2
MAS Bills	109	83	120	88	126	93	3.1	23.8	5.4	15.4
Corporate	154	117	158	116	164	121	8.9	7.5	3.7	6.9

(-) = 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.

Contributing to the growth was the expansion of outstanding MAS bills, which increased 5.4% q-o-q to SGD126 billion from SGD120 billion in Q4 2018. Outstanding Singapore Government Securities (SGS) bills and bonds increased 3.8% q-o-q, climbing to SGD130 billion at the end of March from SGD125 billion at the end of the previous quarter.

A total of SGD146.4 billion worth of government bills and bonds were issued during Q1 2019. Of these, SGD139.2 billion, or 95.1%, were MAS bills; the remaining SGD7.2 billion, or 4.9%, were SGS bills and bonds. MAS bills increased 9.1% q-o-q, while SGS bills and bonds grew 41.2% q-o-q due to larger offerings and more issuances of SGS bonds.

Corporate bonds. LCY corporate bonds expanded 3.7% q-o-q in Q1 2019. On a y-o-y basis, corporate bonds grew 6.9% to SGD164 billion from SGD58 billion in Q4 2017.

The top 30 LCY corporate issuers accounted for SGD75.9 billion, or 46.3% of all LCY corporate bonds outstanding, at the end of March (**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 SGD23.0 billion of corporate bonds outstanding. Fellow state-owned company Land Transport Authority was a distant second with SGD9.0 billion of bonds outstanding, comprising 5.5% of the total LCY corporate bond market.

Just like the previous quarter, the real estate sector dominated the top 30 corporate issuers, accounting for 45.4% of the top 30's total corporate bonds outstanding at the end of March. This was followed by the transport and finance sectors with market shares of 18.6% and 14.6%, respectively.

In Q1 2019, LCY corporate bond issuances grew 17.5% to SGD5.0 billion from SGD4.2 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 3.38%, which was issued under its SGD12 billion multicurrency medium-term note program (**Table 3**). Singapore Airlines' SGD750 million 5-year bond with a coupon of 3.03%, which targeted both retail and institutional investors, was met with strong demand. Proceeds from the issuance will be used to diversify the company's funding sources and for aircraft-related activities. The Housing & Development Board issued two bonds: a SGD600 million 10-year bond with a coupon of 2.675% and a SGD500 million 7-year bond with a 2.495% coupon. Both issuances are part of its SGD32 billion multicurrency medium-term note program, which aims to finance the company's development programs and refinance its existing debts. Singapore Technologies Telemedia issued a SGD350 million perpetual bond with a 5.0% coupon as part of its SGD2 billion multicurrency program. Proceeds from the issuance will be used to finance various activities by the company.

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	23.0	17.0	Yes	No	Real Estate
2.	Land Transport Authority	9.0	6.6	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.2	Yes	Yes	Transportation
4.	Temasek Financial	3.6	2.7	Yes	No	Finance
5.	Frasers Property	3.4	2.5	No	Yes	Real Estate
6.	DBS Group Holdings	2.5	1.9	No	Yes	Banking
7.	United Overseas Bank	2.5	1.8	No	Yes	Banking
8.	Mapletree Treasury Services	2.4	1.8	No	No	Finance
9.	Capitaland	2.1	1.5	Yes	Yes	Real Estate
10.	Keppel Corporation	1.7	1.3	No	Yes	Diversified
11.	Capitaland Treasury	1.6	1.2	No	No	Finance
12.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
13.	CMT MTN	1.4	1.0	No	No	Finance
14.	SP Powerassets	1.4	1.0	No	No	Utilities
15.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
16.	GLL IHT	1.3	0.9	No	No	Real Estate
17.	City Developments Limited	1.2	0.9	No	Yes	Real Estate
18.	Olam International	1.2	0.9	No	Yes	Consumer Goods
19.	Singtel Group Treasury	1.2	0.8	No	No	Finance
20.	Ascendas	1.0	0.7	No	Yes	Finance
21.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
22.	Hyflux	0.9	0.7	No	Yes	Utilities
23.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
24.	Sembcorp Financial Services	0.9	0.6	No	No	Finance
25.	Shangri-La Hotel	0.8	0.6	No	Yes	Real Estate
26.	DBS Bank	0.8	0.6	No	Yes	Banking
27.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
28.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
29.	Singapore Technologies Telemedia	0.8	0.6	Yes	No	Utilities
30.	SMRT Capital	0.8	0.6	No	No	Transportation
Total Top 30 LCY Corporate Issuers		75.9	56.0			
Total LCY Corporate Bonds		164.2	121.1			
Top 30 as % of Total LCY Corporate Bonds		46.3%	46.3%			

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

Notes:

1. Data as of 31 March 2019.

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 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
40-year bond	3.38	1,500
Housing & Development Board		
7-year bond	2.495	500
10-year bond	2.675	600
Singapore Airlines		
5-year bond	3.03	750
Singapore Technologies Telemedia		
Perpetual bond	5.00	350

SGD = Singapore dollar.
Source: Bloomberg L.P.

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5-year bond	3.03	750
Housing & Development Board		
10-year bond	2.675	600
7-year bond	2.495	500
Singapore Technologies Telemedia		
Perpetual bond	5.00	350

SGD = Singapore dollar.
Source: Bloomberg L.P.

Policy, Institutional, and Regulatory Developments

MAS and the European Commission Agree on Common Approach to Trading Derivatives

On 20 February, the MAS and the European Commission agreed to support reforms allowing derivatives to be traded between Singapore and the European Union through each other's trading platforms. The agreement specifies that participants must comply with both European Union and Singaporean regulations when they trade derivatives in each other's markets. The common approach aims to strengthen inter-regional connections and provides investors from Singapore and the European Union with options to hedge financial risks.

MAS Established Corporate Governance Advisory Committee

On 12 February, the MAS established a Corporate Governance Advisory Committee to promote best practices in corporate governance for companies in Singapore. The committee aims to build investor confidence in Singapore's financial market and strengthen Singapore's reputation as a financial hub. The committee is in charge of identifying risks to corporate governance and monitoring international trends and best practices, with the goal of ultimately updating the Corporate Governance Code.