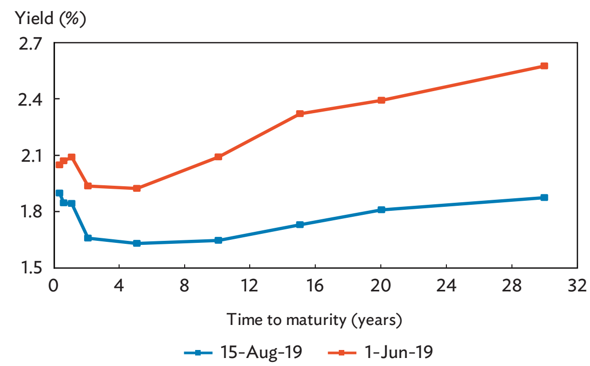
Singapore

Yield Movements

Between 1 June and 15 August, Singapore's local currency (LCY) government bond yields declined for all tenors (**Figure 1**). The lower end of the yield curve (3 months–1 year) declined an average of 21 basis points (bps). However, short-term yields remain elevated due to the impacts of tightened liquidity since the start of 2019 as evidenced by the decreasing spread between the London Interbank Offered Rate and Singapore Interbank Offered Rate. On the other hand, long-term tenors (10–30 years) recorded a larger decline, decreasing an average of 58 bps. The yield spread between 2-year and 10-year government bonds contracted from 15 bps on 1 June to –1 bps on 15 August, adding to concerns that Singapore may be entering a recession.

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



Source: Based on data from Bloomberg LP.

The yield curve for Singapore LCY government bonds shifted downward during the review period, following the movement of government bond yields in the United States (US) as demand for safe-haven assets increased. The drop in US yields was due to the Federal Open Market Committee's decision to cut the federal funds rate during its meeting on 31 July. On the other hand, Singapore's investors' flight to safety was triggered by the escalating trade war between the People's Republic of China (PRC) and the US, a weak global economic growth outlook, and the slowing domestic economy threatening the prospects of trade-dependent Singapore.

Together with the global economy, Singapore's export and growth outlook has suffered due to the ongoing trade war between the PRC and the US. Singapore's non-oil domestic exports have contracted since March 2019, reaching their biggest annual decline of 17.4% year-on-year (y-o-y) in June. Electronics exports have been declining since December 2018. As both the international and domestic growth outlook are bleak, and with Singapore's economy growing just 0.1% y-o-y in the second quarter (Q2) of 2019 after posting 1.1% y-o-y growth in the first quarter (Q1) of 2019, the Ministry of Trade and Industry downgraded its full-year 2019 GDP forecast in August to between zero and 1.0% from 1.5%–2.5% as reported in May.

The Singapore dollar has also reflected the detrimental effects of the escalation of the PRC–US trade war. The Singapore dollar strengthened to an exchange rate of SGD1.353 per US dollar toward the end of June. However, near the end of the review period, on 14 August, the Singapore dollar had depreciated to SGD1.390 per US dollar.

Singapore's core inflation has been slowing since the start of 2019, reaching a low of 0.8% y-o-y in July. The Monetary Authority of Singapore (MAS) does not expect an acceleration of inflationary pressures given the slowdown in both the domestic and global economy, and the restraining effects of monetary policy tightening in 2018. The MAS expects inflation to fall in the lower half of the 1.0%–2.0% range for full-year 2019.

Due to forecasts of a weak trade performance, poor economic growth in the first half of 2019, and slowing inflation, market expects the MAS to ease policy in October in order to stimulate the economy. This would cause the exchange rate to depreciate further, making Singapore's goods more attractive to outside buyers.

Size and Composition

Singapore's LCY bond market expanded 2.3% quarter-on-quarter (q-o-q) in Q2 2019 to SGD429.2 billion (USD317.2 billion) from SGD419.7 billion in Q1 2019 (**Table 1**). The growth corresponds to a 9.9% y-o-y jump from SGD390.4 billion in Q2 2018. The rise in the LCY bond market was supported by the growth of both LCY

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**390**	**287**	**420**	**310**	**429**	**317**	**1.8**	**11.8**	**2.3**	**9.9**
Government	237	174	256	188	262	194	3.0	14.7	2.7	10.7
SGS Bills and Bonds	123	90	130	96	129	96	1.7	9.6	(0.2)	5.1
MAS Bills	114	84	126	93	133	98	4.5	20.8	5.6	16.7
Corporate	153	113	164	121	167	123	(0.1)	7.6	1.7	8.8

( ) = negative, 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 local currency–USD rates are used.
4. Growth rates are calculated from local currency base and do not include currency effects.
Sources: Bloomberg LP, Monetary Authority of Singapore, and Singapore Government Securities.

government and corporate bonds, which accounted for 61.1% and 38.9%, respectively, of total LCY bonds outstanding at the end of Q2 2019.

Issuance of LCY bonds in Q2 2019 increased 4.0% q-o-q to SGD157.5 billion from SGD151.4 billion in Q1 2019, driven by the expansion of both LCY government and corporate bond issuance.

Government bonds. LCY government bond market grew 2.7% q-o-q to SGD262.3 billion in Q2 2019 from SGD255.5 billion in the previous quarter. The growth was mainly due to the 5.6% q-o-q increase in outstanding MAS bills, which comprised about 51% of total outstanding LCY government bonds. This was partially offset by the 0.2% q-o-q decline in outstanding Singapore Government Securities (SGS) bills and bonds, with about a 49% share of total LCY government bonds outstanding. The decline was due to the redemptions of SGS bonds during the quarter.

LCY government bonds issued in Q2 2019 grew 4.0% q-o-q as issuances of MAS bills and SGS bills and bonds increased. More SGS bonds were issued during the quarter to replace the 10-year SGS bond that matured in June.

On 24 May, MAS announced that, starting in July 2019, it would gradually replace 24-week MAS bills with 6-month SGS bills as the SGS market continues to develop. The switch was also meant to meet the demand for short-term SGD-denominated securities as SGS bills are more accessible to a wider range of investors.

Corporate bonds. LCY corporate bonds outstanding increased 1.7% q-o-q to SGD166.9 billion in Q2 2019 from SGD164.2 billion in Q1 2019, helped by the increase in outstanding corporate bonds in the industrial sector.

The top 30 LCY corporate bond issuers in Singapore accounted for a combined SGD77.6 billion, or 46.5% of total LCY corporate bonds outstanding at the end of Q2 2019 (**Table 2**). Government institutions such as the Housing & Development Board and the Land Transport Authority dominated all issuers with outstanding LCY corporate bonds amounting to SGD22.4 billion (13.4% of total LCY corporate bonds outstanding) and SGD10.4 billion (6.2% of total LCY corporate bonds outstanding), respectively. In terms of industry, real estate companies had the largest share (43.3%) of the top 30 issuers of LCY corporate bonds during the review period with SGD33.6 billion. This was followed by the transportation industry with SGD15.6 billion and a share of 20.1% of total LCY corporate bonds outstanding at the end of Q2 2019.

Issuance of LCY corporate bonds jumped 4.0% q-o-q in Q2 2019 due to a surge in issuances in May and June. Most companies opted to offer large issuances compared to the previous quarter, taking advantage of the low-interest-rate environment.

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	16.6	Yes	No	Real Estate
2.	Land Transport Authority	10.4	7.7	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.2	Yes	Yes	Transportation
4.	Frasers Property	3.8	2.8	No	Yes	Real Estate
5.	Temasek Financial	3.6	2.7	Yes	No	Finance
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.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
10.	Capitaland	1.8	1.3	Yes	Yes	Real Estate
11.	Capitaland Treasury	1.6	1.2	No	No	Finance
12.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
13.	City Developments Limited	1.5	1.1	No	Yes	Real Estate
14.	CMT MTN	1.4	1.0	No	No	Finance
15.	SP Powerassets	1.3	1.0	No	No	Utilities
16.	Public Utilities Board	1.3	1.0	Yes	No	Utilities
17.	Olam International	1.2	0.9	No	Yes	Consumer Goods
18.	GLL IHT	1.2	0.9	No	No	Real Estate
19.	Singtel Group Treasury	1.2	0.8	No	No	Finance
20.	Shangri-La Hotel	1.1	0.8	No	Yes	Real Estate
21.	Suntec REIT	0.9	0.7	No	Yes	Real Estate
22.	Hyflux	0.9	0.7	No	Yes	Utilities
23.	Ascendas	0.9	0.7	No	Yes	Finance
24.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
25.	Sembcorp Financial Services	0.9	0.6	No	No	Engineering
26.	DBS Bank	0.8	0.6	No	Yes	Banking
27.	Sembcorp Industries	0.8	0.6	No	Yes	Shipbuilding
28.	Singapore Technologies Telemedia	0.8	0.6	Yes	No	Utilities
29.	SMRT Capital	0.8	0.6	No	No	Transportation
30.	National University of Singapore	0.8	0.6	No	No	Education
Total Top 30 LCY Corporate Issuers		**77.6**	**57.3**			
Total LCY Corporate Bonds		**166.9**	**123.4**			
Top 30 as % of Total LCY Corporate Bonds		**46.5%**	**46.5%**			

LCY = local currency, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 June 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 Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Land Transport Authority		
35-year bond	3.300	1,400
Housing & Development Board		
5-year bond	2.164	700
Frasers Property		
Perpetual bond	4.980	400
Keppel Infrastructure		
Perpetual bond	4.750	300
Singapore Press Holdings		
Perpetual bond	4.500	150
Wing Tai Holdings		
Perpetual bond	4.480	150
Oversea-Chinese Banking Corporation		
5-year bond	5.000	2

SGD = Singapore dollar.
Source: Bloomberg LP.

The Land Transport Authority issued the single-largest LCY corporate bond in Q2 2019. The state-owned company issued a SGD1,400 million 35-year bond with a coupon rate of 3.3% under its SGD12 billion multicurrency medium-term note program. Oversea-Chinese Banking Corporation issued an LCY corporate bond with the highest coupon during the review period: a SGD2 million 5-year bond with a 5.00% coupon rate. Several companies issued perpetual bonds whose issuance amount ranged from SGD150 million to SGD400 million and with coupon rates of between 4.48% and 4.98%. Proceeds from the perpetual bonds will be used to finance general working capital and to refinance company borrowing.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Replacing 24-Week Monetary Authority of Singapore Bills with 6-Month Singapore Government Securities Bills

On 24 May, the MAS announced that it would gradually replace 24-week MAS bills with 6-month SGS bills starting in July. The switch was spurred by the SGS market's continued growth and development, with recent years seeing a steady increase in outstanding SGS bills and bonds. The growth was attributed to demand from financial institutions for high-quality liquid assets and from retail investors for Singapore Savings Bonds. The switch was also meant to meet the demands of an expanding investor base for short-term SGD-denominated securities as SGS bills become more accessible to a wider range of investors such as asset managers, corporations, and retail investors.