

Singapore

Yield Movements

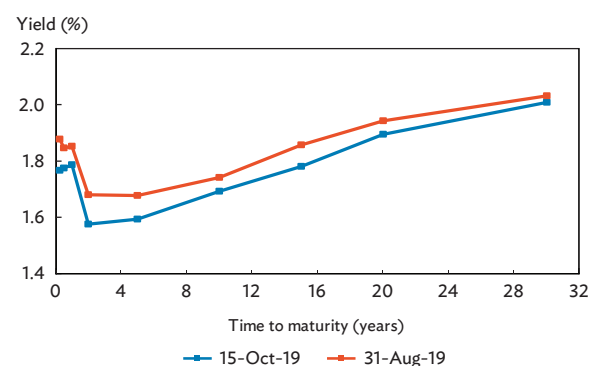
Between 31 August and 15 October, Singapore's local currency (LCY) government bond yields declined for all tenors (**Figure 1**). The shorter end of the yield curve (from 3 months to 1 year) declined an average of 8 basis points (bps). The slightly falling yields reflected improving liquidity, supported by the declining 6-month swap offer rate, which is a benchmark borrowing cost for offshore investors. Yields of longer-term tenors (from 2 years to 30 years) recorded smaller declines, decreasing an average of 6 bps. The yield spread between 2-year and 10-year government bonds expanded from 6 bps on 31 August to 12 bps on 15 October.

The yield curve for Singapore LCY government bonds shifted downward during the review period amid policy easing by Monetary Authority of Singapore (MAS). During its monetary policy meeting on 14 October, MAS decided to reduce slightly the appreciation rate of the Singapore dollar nominal effective exchange rate policy band. The width and center of the policy band were unchanged. The decision came with the economy growing below its potential and core inflation remaining low. Investors' flight to safety contributed as well, spurred by a weak global economic growth outlook and geopolitical risks in the region.

Advance estimates showed that Singapore's economy grew 0.1% year-on-year (y-o-y) in the third quarter (Q3) of 2019, the same growth rate recorded in the second quarter (Q2) of 2019. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, annualized gross domestic product grew 0.6% in Q3 2019, a reversal from the decline of 2.7% in the previous quarter. This alleviated concerns that Singapore's economy was about to enter recession. MAS expects Singapore's 2019 gross domestic product growth to fall within the 0.0%–1.0% range. Economic growth was slow during the first 9 months of the year but is expected to pick up in 2020.

The manufacturing sector continued to depress economic growth due to a downturn in the global electronics cycle and the effects of the trade war between the People's Republic of China (PRC) and the United States. On the other hand, the construction sector is expected to recover as infrastructure projects

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



Source: Based on data from Bloomberg LP.

roll out during the latter part of the year. MAS expressed concerns that the poor performance of the global economy may weaken domestic demand in some of Singapore's major trading partners.

Core inflation eased in September to 0.7% y-o-y from 0.8% y-o-y in August. Core inflation fell below the forecast range and is expected to remain low for the rest of the year. Weak demand conditions, volatility in oil prices, softening labor market conditions, and subdued retail rents are contributing to the low inflation. For 2019, MAS expects core inflation to be in the lower half of the 1.0%–2.0% range.

As such, MAS deemed the reduction in the slope of the Singapore dollar nominal effective exchange rate as being appropriate. The monetary policy easing is meant to promote medium-term price stability.

Size and Composition

Singapore's LCY bond market expanded 4.9% q-o-q in Q3 2019 to reach SGD445.6 billion (USD322.4 billion) at the end of September from SGD424.7 billion at the end of June (**Table 1**). On an annual basis, growth was up 11.9% y-o-y. The rise in the LCY bond market was supported by growth in both government and corporate bonds, which accounted for 62.2% and 37.8%, respectively, of total LCY bonds outstanding at the end of Q3 2019.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	398	291	425	314	446	322	2.0	9.8	4.9	11.9
Government	241	176	262	194	277	200	1.6	9.3	5.6	15.0
SGS Bills and Bonds	122	89	129	96	163	118	(0.6)	4.4	25.8	33.0
MAS Bills	119	87	133	98	114	83	3.9	14.7	(14.0)	(3.5)
Corporate	157	115	162	120	169	122	2.5	10.7	3.8	7.2

(-) = negative, 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 SGS 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.

Issuance of LCY bonds in Q3 2019 increased 8.4% q-o-q to SGD170.7 billion from SGD157.5 billion in Q2 2019, driven by the expansion of both LCY government and corporate bond issuance.

Government bonds. The LCY government bond market grew 5.6% q-o-q to SGD277.0 billion in Q3 2019 from SGD262.3 billion in the previous quarter. The growth was mainly due to the 25.8% q-o-q increase in outstanding Singapore Government Securities (SGS) bills and bonds, which comprised 58.7% of total outstanding LCY government bonds, overtaking the share of MAS bills during the quarter. In July, MAS introduced 6-month SGS bills to gradually replace the 24-week MAS bills. This caused the 14.0% q-o-q decline in outstanding MAS bills, which comprised a 41.3% share of total LCY government bonds outstanding at the end of September.

LCY government bond issuance in Q3 2019 rose 8.5% q-o-q as total SGS bills and bond issuance increased with the introduction of 6-month SGS bills.

Corporate bonds. LCY corporate bonds outstanding increased 3.8% q-o-q to SGD168.6 billion in Q3 2019 from SGD162.4 billion in Q2 2019, helped by the increase in outstanding corporate bonds in the financial and industrial sectors.

The top 30 LCY corporate bond issuers in Singapore accounted for combined outstanding bonds of SGD81.4 billion, or 48.3% of total LCY corporate bonds outstanding at the end of Q3 2019 (**Table 2**). Government institutions such as the Housing &

Development Board and the Land Transport Authority continued to dominate all issuers with outstanding LCY corporate bonds amounting to SGD23.0 billion (13.6% of total LCY corporate bonds outstanding) and SGD10.4 billion (6.2% of total LCY corporate bonds outstanding), respectively. By industry type, real estate companies comprised the largest share (43.2%) among the top 30 issuers of LCY corporate bonds with SGD35.2 billion of total LCY corporate bonds outstanding at the end of Q3 2019. This was followed by the transportation industry with SGD15.6 billion and a share of 19.1%.

Issuance of LCY corporate bonds jumped 4.8% q-o-q in Q3 2019 due to a surge in issuance in July. Companies continued to offer large issuances, taking advantage of the low-interest-rate environment.

Sembcorp Financial Services issued the single-largest LCY corporate bond in Q3 2019 (**Table 3**). It issued a SGD1,500.0 million 5-year bond with a coupon rate of 0.55%. Maxi-Cash Financial Services issued an LCY corporate bond with the highest coupon rate during the review period: a SGD50.0 million 3-year bond with a 6.35% coupon rate. Proceeds will be used to pay for Maxi-Cash's buyback of its SGD14.0 million worth of existing notes. Several companies issued perpetual bonds in amounts ranging from SGD150.0 million to SGD750.0 million and with coupon rates between 3.58% and 4.10%. United Overseas Bank issued a perpetual bond under its USD15.0 billion global medium-term note program. Proceeds from SPH REIT's perpetual bond issuance will be used for financing general working

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	16.6	Yes	No	Real Estate
2.	Land Transport Authority	10.4	7.5	Yes	No	Transportation
3.	Singapore Airlines	4.4	3.2	Yes	Yes	Transportation
4.	Frasers Property	4.0	2.9	No	Yes	Real Estate
5.	Temasek Financial	3.6	2.6	Yes	No	Finance
6.	United Overseas Bank	3.3	2.4	No	Yes	Banking
7.	Mapletree Treasury Services	2.7	1.9	No	No	Finance
8.	DBS Group Holdings	2.5	1.8	No	Yes	Banking
9.	Capitaland Treasury	2.4	1.7	No	No	Finance
10.	Sembcorp Financial Services	2.4	1.7	No	No	Engineering
11.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
12.	Capitaland	1.8	1.3	Yes	Yes	Real Estate
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	City Developments Limited	1.5	1.1	No	Yes	Real Estate
15.	CMT MTN	1.4	1.0	No	No	Finance
16.	SP Powerassets	1.3	0.9	No	No	Utilities
17.	Public Utilities Board	1.3	0.9	Yes	No	Utilities
18.	GLL IHT	1.2	0.8	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	0.6	No	Yes	Finance
24.	Mapletree Commercial Trust	0.9	0.6	No	Yes	Real Estate
25.	Olam International	0.8	0.6	No	Yes	Consumer Goods
26.	Overseas Union Enterprise	0.8	0.6	No	Yes	Real Estate
27.	DBS Bank	0.8	0.6	No	Yes	Banking
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		81.4	58.9			
Total LCY Corporate Bonds		168.6	122.0			
Top 30 as % of Total LCY Corporate Bonds		48.3%	48.3%			

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

Notes:

1. Data as of 30 September 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 Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Sembcorp Financial Services		
5-year bond	0.55	1,500
United Overseas Bank		
Perpetual bond	3.58	750
SPH REIT		
Perpetual bond	4.10	300
Thomson Medical Group		
3-year bond	4.80	225
Ascott Residence Trust		
Perpetual bond	3.88	150
Maxi-Cash Financial Services		
3-year bond	6.35	50

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

capital, capital expenditure, and corporate requirements. Ascott Residence Trust will use the proceeds from its perpetual bond issuance for general corporate purposes, including the redemption of its existing SGD150.0 million 5.0% perpetual securities.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore Issues Guidelines to Enhance Cyber Security in the Financial Industry

On 6 August, MAS issued new rules to enhance the cyber resilience of the financial sector. These rules are meant to manage the risks of cyber threats. Financial institutions are required to develop and implement security measures for their information technology systems. They must also ensure timely responses to security flaws in their system, preventing external attacks and malware risks. Industry players are expected to develop measures that prevent unauthorized access to data, enhance the security of access to accounts, and improve user authentication and access to customer information. Financial institutions must comply with the new rules starting 6 August 2020.

Singapore and the People's Republic of China to Strengthen Each Other's Financial Markets

On 15 October, MAS and the People's Bank of China (PBOC) discussed measures to expand activities between the capital markets of the PRC and Singapore that would help strengthen both markets. The PBOC agreed to grant DBS Bank with a settlement agent license, which will allow it to trade, settle, and hold custody of debt instruments from the PRC's interbank bond market on behalf of foreign investors. The MAS and the PBOC also agreed to develop mechanisms that would equip select Singaporean and Chinese banks with custody and trading services to help investors in the PRC's bond market.