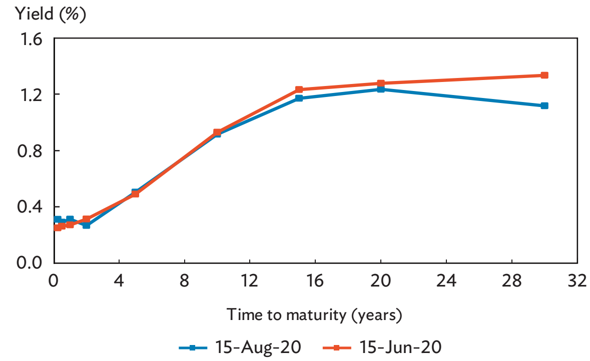
Singapore

Yield Movements

Between 15 June and 15 August, movements in Singapore's local currency (LCY) government bond yields were mixed (**Figure 1**). The shorter-end of the yield curve (from 3 months to 1 year) increased an average of 4 basis points (bps). Meanwhile, yields of longer-term tenors (from 2 years to 20 years) shed an average of 3 bps. The 30-year tenor recorded a much steeper decline, dropping 22 bps. The yield spread between 2-year and 10-year government bonds expanded from 62 bps to 65 bps during the review period.

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



Source: Based on data from Bloomberg LP.

Demand for short-term tenors declined as the Monetary Authority of Singapore (MAS) lowered banks' net stable funding ratio requirement in April to ensure bank liquidity and support their lending activities. This was one of the measures undertaken by MAS to support the financial sector amid economic disruptions caused by the coronavirus disease (COVID-19) pandemic. On the other hand, movement at the longer-end of the yield curve in Singapore was driven by MAS' decision in March to reduce the appreciation rate of the Singapore dollar nominal effective exchange rate policy band.

In March 2020, MAS reduced to zero the appreciation rate of the Singapore dollar nominal effective exchange rate policy band given Singapore's low rates of economic growth and consumer price inflation. The decision complemented Singapore's Resilience Budget announced in late March. As the global economic recovery remains uncertain, analysts see MAS maintaining its current exchange rate policy during the second half of 2020.

Singapore's economy contracted 13.2% year-on-year (y-o-y) in the second quarter (Q2) of 2020 after contracting 0.3% y-o-y in the first quarter (Q1) of 2020. The declining economic performance was mainly due to Circuit Breaker measures—that is, limiting movements inside the city-state to prevent the spread of COVID-19—implemented from 7 April to 1 June. In August, the Ministry of Trade and Industry downgraded its full-year 2020 economic growth forecast to between –7.0% and –5.0%. This was a narrower range from its May forecast of between –7.0% and –0.4%. The revised outlook came as Singapore experienced weaker-than-expected external demand and as international borders are expected to open more gradually than expected owing to the resurgence of COVID-19 cases in some economies.

Prices of basic goods and services in Singapore were down 0.5% y-o-y in June, compared with declines of 0.8% y-o-y and 0.7% y-o-y in consumer price inflation in May and April, respectively. The slowing rate of deflation was mainly due to a slower decline in prices of private transport. International and domestic inflationary pressures are expected to remain subdued in the short-term, prompting MAS' inflation projection for full-year 2020 to remain between –1.0% and 0.0%, the same as its forecast in March.

A bright spot in Singapore's economy is the electronics cluster, which saw its output grow 17.3% y-o-y in June. Demand for semiconductors is expected to be sustained in the second half of 2020. Singapore's Purchasing Managers' Index has also improved, reaching 50.2 in July after gradually climbing from a low of 44.7 in April. (A Purchasing Managers' Index reading above 50 indicates expansion in the manufacturing industry, while a value below 50 signifies contraction.) Economists are cautiously optimistic that this recovery can be sustained.

To support the economy amid the COVID-19 pandemic, Singapore rolled out about SGD100.0 billion in stimulus packages over four budgets. Even as the COVID-19 situation in Singapore stabilized, the protection of jobs remained one of Singapore's priorities. As its Jobs Support Scheme was set to end in August, the

Government of Singapore extended the program to March 2021, continuing its wage support to businesses to help them retain workers. This came amid Singapore's reopening after exiting the Circuit Breaker in June. Phase 1 of the reopening, called Safe Reopening, allowed essential economic activities to resume. On 19 June, Singapore entered Phase 2 (Safe Transition) where more activities were permitted as infection rates remained stable and manageable. As the situation develops, the Government of Singapore will look into moving to Phase 3 (Safe Nation), the start of the new normal where gatherings of limited size are allowed.

Size and Composition

Singapore's LCY bond market expanded 2.9% quarter-on-quarter (q-o-q) in Q2 2020 to reach SGD480.6 billion (USD344.9 billion) at the end of June, up from SGD467.2 billion at the end of March (**Table 1**). On an annual basis, growth accelerated to 13.2% y-o-y in Q2 2020 from 8.8% a year earlier. The expansion in the LCY bond market was supported by growth in both government and corporate bonds, which accounted for 63.6% and 36.4%, respectively, of total LCY bonds outstanding at the end of Q2 2020.

Issuance of LCY bonds in Q2 2020 increased 4.1% q-o-q to SGD185.0 billion from SGD177.8 billion in Q1 2020, driven by higher government and corporate bond issuances.

Government bonds. The LCY government bond market grew 4.4% q-o-q to SGD305.7 billion in Q2 2020 from SGD292.8 billion in the previous quarter. The growth was due to an increase in Singapore Government Securities (SGS) bills and bonds, and MAS bills. Outstanding SGS bills and bonds, which comprised 63.7% of total outstanding LCY government bonds, jumped 3.7% q-o-q as 6-month SGS bills have gradually replaced 24-week MAS bills since July 2019. By the end of June, outstanding MAS bills had dropped 16.5% on an annual basis.

LCY government bond issuance in Q2 2020 rose 3.0% q-o-q to SGD179.0 billion as issuance of SGS bills and bonds increased.

Corporate bonds. LCY corporate bonds outstanding increased 0.3% q-o-q in Q2 2020 to reach SGD174.9 billion at the end of June, up from SGD174.4 billion at the end of March, buoyed by the increase in outstanding corporate bonds in the real estate and transportation industry.

The top 30 LCY corporate bond issuers in Singapore accounted for combined outstanding bonds of SGD85.7 billion, or 49.0% of the total LCY corporate bond market at the end of Q2 2020 (**Table 2**). Government institutions such as the Housing & Development Board and the Land Transport Authority continued to be the largest issuers with outstanding LCY corporate bonds amounting to SGD25.2 billion (14.4% of total LCY corporate bonds outstanding) and SGD10.1 billion (5.8% of total LCY corporate bonds outstanding), respectively. By industry type, real estate companies continued to comprise the largest share (43.8%) among the top 30 issuers of LCY corporate bonds with SGD37.6 billion of aggregate LCY corporate bonds outstanding at the end of Q2 2020. The transportation industry had the second-largest share of total LCY corporate bonds outstanding at 21.9% (SGD18.8 billion).

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**425**	**314**	**467**	**329**	**481**	**345**	**2.3**	**8.8**	**2.9**	**13.2**
Government	262	194	293	206	306	219	2.7	10.7	4.4	16.5
SGS Bills and Bonds	129	96	188	132	195	140	(0.2)	5.1	3.7	50.5
MAS Bills	133	98	105	74	111	80	5.6	16.7	5.7	(16.5)
Corporate	162	120	174	123	175	126	1.7	5.8	0.3	7.7

( ) = 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 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.

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	25.2	18.1	Yes	No	Real Estate
2.	Land Transport Authority	10.1	7.2	Yes	No	Transportation
3.	Singapore Airlines	7.9	5.7	Yes	Yes	Transportation
4.	Frasers Property	4.0	2.9	No	Yes	Real Estate
5.	United Overseas Bank	3.3	2.3	No	Yes	Banking
6.	Mapletree Treasury Services	2.7	1.9	No	No	Finance
7.	Keppel Corporation	2.7	1.9	No	Yes	Diversified
8.	Capitaland Treasury	2.7	1.9	No	No	Finance
9.	Temasek Financial	2.6	1.9	Yes	No	Finance
10.	DBS Group Holdings	2.5	1.8	No	Yes	Banking
11.	Sembcorp Financial Services	2.1	1.5	No	No	Engineering
12.	City Developments Limited	1.7	1.2	No	Yes	Real Estate
13.	Oversea-Chinese Banking Corporation	1.5	1.1	No	Yes	Banking
14.	CMT MTN	1.4	1.0	No	No	Finance
15.	Shangri-La Hotel	1.4	1.0	No	Yes	Real Estate
16.	Public Utilities Board	1.3	0.9	Yes	No	Utilities
17.	GLL IHT	1.2	0.8	No	No	Real Estate
18.	Capitaland	1.2	0.8	Yes	Yes	Real Estate
19.	Mapletree Commercial Trust	1.1	0.8	No	Yes	Real Estate
20.	Suntec REIT	1.0	0.7	No	Yes	Real Estate
21.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
22.	Hyflux	0.9	0.6	No	Yes	Utilities
23.	Ascendas	0.9	0.6	No	Yes	Finance
24.	Olam International	0.8	0.6	No	Yes	Consumer Goods
25.	DBS Bank	0.8	0.6	No	Yes	Banking
26.	SP Powerassets	0.8	0.6	No	No	Utilities
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.	Wing Tai Holdings	0.8	0.6	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		**85.7**	**61.5**			
Total LCY Corporate Bonds		**174.9**	**125.5**			
Top 30 as % of Total LCY Corporate Bonds		**49.0%**	**49.0%**			

LCY = local currency, MTN = medium-term note, REIT = real estate investment trust, SGD = Singapore dollar, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
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.

Issuance of LCY corporate bonds soared 50.8% q-o-q to SGD6.0 billion in Q2 2020, bolstered by Singapore Airline's issuance in June.

Singapore Airlines issued the single-largest LCY corporate bond in Q2 2020, issuing a SGD3.5 billion 10-year, zero-coupon mandatory convertible bond (**Table 3**). Proceeds from the issuance will be used to finance the airline company's capital and operational expenditure requirements. The Housing & Development Board issued a 10-year bond worth SGD800.0 million under its multicurrency medium-term note program to support development programs and finance existing borrowing. The National University of Singapore issued a green bond

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Singapore Airlines		
10-year bond	0.00	3,496.1
Housing & Development Board		
10-year bond	1.27	800.0
National University of Singapore		
10-year bond	1.57	300.0
Tuan Sing Holdings		
2-year bond	7.75	65.0
DBS Bank		
1-year floating rate note	0.73	20.0

SGD = Singapore dollar.
Source: Bloomberg LP.

worth SGD300.0 million with a tenor of 10 years and coupon rate of 1.565%. The academic institution will use the proceeds for green projects that follow guidelines indicated in its Green Finance Network. Tuan Sing Holdings sold the bond with the highest coupon during the quarter, issuing a SGD65.0 million 2-year bond with a 7.75% coupon rate. Proceeds from the issuance will be used for property development and investment, refinancing of debt obligations, and other corporate needs. In May, DBS Bank issued the first 1-year floating-rate note, which references the Singapore Overnight Rate Average (SORA). This came amid the banking industry's transition from using the Swap Offer Rate to referencing SORA as the benchmark in Singapore's debt market. DBS Bank will utilize the proceeds for its general business needs.

Ratings Update

On 14 August, Fitch Ratings affirmed Singapore's AAA long-term foreign currency issuer default rating with a stable outlook. The affirmation reflects Singapore's strong macroeconomic fundamentals and the government's appropriate fiscal relief measures to mitigate the economic fallout from the COVID-19 pandemic. Despite Singapore's economy contracting and the deflationary environment, Fitch Ratings expects Singapore's economy to gradually bounce back during the second half of 2020 and into 2021.

Policy, Institutional, and Regulatory Developments

Monetary Authority of Singapore and United States Federal Reserve Extend Swap Arrangement

On 30 July, MAS announced that its USD60.0 billion swap facility with the United States (US) Federal Reserve, which was established in March and initially set to run for at least 6 months, had been extended up to 31 March 2021. The swap facility is intended to support banks in maintaining their liquidity position in the US dollar funding market in Singapore amid the COVID-19 pandemic. It also complements MAS' management of the Singapore dollar market. Together, these measures reinforce market confidence and stability in the Singapore financial market.

Monetary Authority of Singapore Announces Initiatives to Support Singapore Overnight Rate Average

On 5 August, MAS launched initiatives that boost the adoption of SORA as a benchmark in the Singapore financial market. On 21 August, MAS began issuing SORA-based, floating-rate notes on a monthly basis to expand money market instruments and develop the use of SORA as a floating-rate benchmark. MAS will promote transparency by publishing key statistics on various tenors utilizing SORA. To ensure compliance and robustness in the use of SORA, MAS prescribed its use as a benchmark under the Securities and Futures Act. Finally, to meet international best practices and assure market confidence, MAS issued a statement of compliance with International Organization of Securities Commissions principles. These initiatives will help Singapore's financial industry transition from the use of the Swap Offer Rate to SORA.