

Singapore

Yield Movements

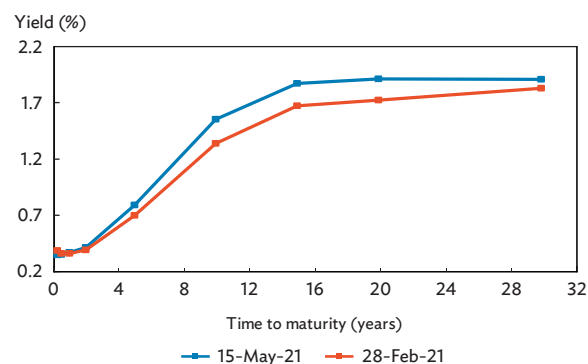
Between 28 February and 15 May, Singapore's local currency (LCY) government bond yields increased for most tenors (**Figure 1**). The shorter-end of the yield curve (3–6 months) declined an average of 2 basis points (bps). Tenors of 1–5 years rose an average of 4 bps, while the 30-year tenor jumped 8 bps. Yields for 10–20 years recorded an average increase of 20 bps. The yield spread between 2-year and 10-year government bonds expanded from 95 bps to 114 bps during the review period.

The yield curve for Singapore's LCY government bonds tracked the movements of the yield curve for United States (US) Treasuries during the review period, with the yields of short-term tenors declining and the yields of long-term tenors increasing. Longer-term US Treasury yields rose on expectations of higher consumer price inflation brought about by fiscal stimulus measures. The low demand for long-term securities can also be attributed to investor cautiousness brought about by uncertainties over the path of the COVID-19 pandemic. Events that may pose challenges are potential vaccine roll out complications and the emergence of new variants of the virus.

In April, Monetary Authority of Singapore (MAS) kept its monetary policy unchanged. The appreciation rate of the Singapore dollar nominal effective exchange rate remained at zero, and the center of the policy band was left unchanged. MAS is optimistic that the economy will exhibit above-average growth this year. However, core consumer price inflation is expected to remain low.

Singapore's economy expanded 1.3% year-on-year (y-o-y) in the first quarter (Q1) of 2021, improving from the contraction of 2.4% y-o-y in the fourth quarter (Q4) of 2020. A bright spot that contributed to Singapore's economic expansion was the growth of manufacturing output. This was partially offset, however, by the construction industry's contraction as social distancing measures inhibited activities in the sector.

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



Source: Based on data from Bloomberg LP.

The Ministry of Trade and Industry forecasts Singapore's economic growth will be between 4.0% and 6.0% for full-year 2021.

Consumer price inflation in Singapore increased steadily during Q1 2021 from 0.2% y-o-y in January to 0.7% y-o-y in February and 1.3% y-o-y in March. Core inflation, which excludes the cost of accommodations and private transport, was 0.5% y-o-y in March, compared with 0.2% y-o-y in February. Singapore's central bank expects price pressures to gradually pick up as domestic demand improves. MAS projects inflation for full-year 2021 to be between 0.5% and 1.5%.

Singapore was already in Phase 3 of its reopening strategy at the end of December 2020. However, on 8 May, Singapore reverted to Phase 2 (Heightened Alert) due to rising COVID-19 cases. Although not a Circuit Breaker, the government introduced tightened measures to arrest the spread of the disease. Despite the rise in cases, Singapore's vaccination program has been highly successful. Vaccination data from Singapore's Ministry of Health indicated that 2.5 million people have received at least one dose of the COVID-19 vaccine as of 7 June.¹⁰ It is expecting to administer at least one dose of the COVID-19 vaccine to all of its adult population by August.

¹⁰ According to Singapore's Department of Statistics, the city-state's population at the end of June 2020 was 5.7 million.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	SGD	USD	SGD	USD	SGD	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	461	324	503	380	522	388	2.2	11.8	3.8	13.4
Government	293	206	330	249	349	260	2.5	14.6	6.0	19.3
SGS Bills and Bonds	188	132	196	148	203	151	2.7	44.8	3.5	8.3
MAS Bills	105	74	133	101	146	109	2.0	(16.5)	9.6	38.9
Corporate	168	118	173	131	173	129	1.7	7.1	(0.3)	3.1

() = negative, 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 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.

Size and Composition

Singapore's LCY bond market expanded 3.8% quarter-on-quarter (q-o-q) in Q1 2021 to reach a size of SGD522.2 billion (USD388.3 billion) at the end of March, up from SGD502.9 billion at the end of December 2020 (**Table 1**). On an annual basis, growth accelerated to 13.4% y-o-y in Q1 2021 from 11.6% y-o-y in Q4 2020.

The expansion in the LCY bond market was supported by growth in government bonds, which accounted for 66.9% of total LCY bonds outstanding at the end of Q1 2021.

Issuance of LCY bonds in Q1 2021 increased 4.7% q-o-q to SGD226.7 billion from SGD216.6 billion in Q4 2020, driven by rising government bond issuance. This was partially offset by a drop in the issuance of corporate bonds.

Government bonds. The LCY government bond market grew 6.0% q-o-q to SGD349.2 billion in Q1 2021 from SGD329.5 billion in the previous quarter. Outstanding Singapore Government Securities bills and bonds, which comprised 58.2% of total outstanding LCY government bonds at the end of March, increased 3.5% q-o-q. MAS bills, comprising 41.8% of all outstanding LCY government bonds, jumped 9.6% q-o-q.

LCY government bond issuance in Q1 2021 rose 5.1% q-o-q. The growth may be attributed to the government's need to help finance the budget deficit generated by increased spending to address the COVID-19 pandemic. The growth was also due to an increase in MAS bills spurred by the issuance of 1-year

floating-rate notes in March in addition to the existing 6-month tenor. MAS issues floating-rate notes to promote the use of the Singapore Overnight Rate Average (SORA) as a benchmark in Singapore's financial market. Issuance of Singapore Government Securities bills and bonds declined to SGD32.2 billion in Q1 2021 from SGD33.5 billion in the previous quarter.

Corporate bonds. LCY corporate bonds outstanding marginally declined 0.3% q-o-q in Q1 2021 to SGD173.0 billion at the end of March, down from SGD173.4 billion at the end of December, as several corporate bonds matured during the quarter and fewer bonds were issued compared to the previous quarter.

The top 30 LCY corporate bond issuers in Singapore accounted for combined bonds outstanding of SGD92.9 billion, or 53.7% of the total LCY corporate bond market, at the end of Q1 2021 (**Table 2**). The government-owned Housing & Development Board remained the largest issuer with outstanding LCY corporate bonds amounting to SGD25.8 billion. By industry type, real estate companies continued to comprise the largest share (47.6%) among the top 30 issuers of LCY corporate bonds with SGD44.2 billion of aggregate LCY corporate bonds outstanding at the end of Q1 2021.

In Q1 2021, issuance of LCY corporate bonds declined to SGD3.7 billion, a contraction of 17.9% q-o-q from SGD4.5 billion in the previous quarter. This marked the third consecutive quarter of decline in corporate bond issuance.

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	25.8	19.2	Yes	No	Real Estate
2.	Land Transport Authority	9.5	7.0	Yes	No	Transportation
3.	Singapore Airlines	8.7	6.5	Yes	Yes	Transportation
4.	CapitaLand	4.3	3.2	Yes	Yes	Real Estate
5.	Frasers Property	4.0	3.0	No	Yes	Real Estate
6.	United Overseas Bank	3.4	2.5	No	Yes	Banking
7.	Temasek Financial	3.1	2.3	Yes	No	Finance
8.	DBS Bank	2.9	2.1	No	Yes	Banking
9.	Mapletree Treasury Services	2.9	2.1	No	No	Finance
10.	Sembcorp Industries	2.9	2.1	No	Yes	Diversified
11.	Keppel Corporation	2.2	1.6	No	Yes	Diversified
12.	City Developments Limited	2.1	1.5	No	Yes	Real Estate
13.	CapitaLand Mall Trust	2.0	1.5	No	No	Finance
14.	Oversea-Chinese Banking Corporation	1.7	1.3	No	Yes	Banking
15.	Olam International	1.7	1.3	No	Yes	Consumer Goods
16.	Ascendas Real Estate Investment Trust	1.6	1.2	No	Yes	Finance
17.	Shangri-La Hotel	1.5	1.1	No	Yes	Real Estate
18.	NTUC Income	1.4	1.0	No	No	Finance
19.	Suntec Real Estate Investment Trust	1.3	1.0	No	Yes	Real Estate
20.	Singapore Technologies Telemedia	1.2	0.9	Yes	No	Utilities
21.	GuocoLand Limited IHT	1.1	0.8	No	No	Real Estate
22.	Public Utilities Board	1.0	0.7	Yes	No	Utilities
23.	Ascott Residence	1.0	0.7	No	Yes	Real Estate
24.	Singapore Press Holdings	1.0	0.7	No	Yes	Communications
25.	StarHub	0.9	0.7	No	Yes	Diversified
26.	Hyflux	0.9	0.7	No	Yes	Utilities
27.	Mapletree Commercial Trust	0.9	0.7	No	Yes	Real Estate
28.	Keppel Real Estate Investment Trust	0.8	0.6	No	No	Real Estate
29.	Wing Tai Holdings	0.8	0.6	No	Yes	Real Estate
30.	RCS Trust	0.7	0.5	No	No	Real Estate
Total Top 30 LCY Corporate Issuers		92.9	69.1			
Total LCY Corporate Bonds		173.0	128.7			
Top 30 as % of Total LCY Corporate Bonds		53.7%	53.7%			

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

Notes:

1. Data as of 31 March 2021.

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.

The Housing & Development Board issued the two largest LCY corporate bonds in Q1 2021, an SGD800.0 million 5-year bond and a SGD900.0 million 7-year bond (**Table 3**). Both issuances were part of the company's multicurrency medium-term note program. Proceeds from the issuances will be used to finance the company's development programs and working capital requirements. Olam International and United Overseas Bank issued callable perpetual bonds in Q1 2021. Proceeds from Olam International's issuance will be used for working capital and general corporate purposes. Promoting the adoption of SORA, United Overseas Bank pioneered the issuance of a capital security with a reset

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (SGD million)
Housing & Development Board		
5-year bond	0.635	800.0
7-year bond	1.370	900.0
Olam International		
Perpetual bond	5.375	250.0
Surbana Jurong		
10-year bond	2.480	250.0
Boustead Industrial Fund		
10-year bond	7.000	236.0
StarHub		
10-year bond	2.480	200.0
United Overseas Bank		
Perpetual bond	2.250	150.0

SGD = Singapore dollar.
Source: Bloomberg LP.

coupon rate referencing the SORA overnight indexed swap rate. In March, Boustead Industrial Fund issued a bond with the highest coupon rate during the review period at 7.0%.

Policy, Institutional, and Regulatory Developments

Bilateral Investment Treaty with Indonesia Begins

On 9 March, the bilateral investment treaty signed in 2018 by Singapore and Indonesia entered into force. The treaty establishes rules and additional protections for investors and investments in each other's economies. The establishment of the bilateral investment treaty aims to foster a better economic relationship and increase investment flows between Singapore and Indonesia.

Singapore and Japan Renew Bilateral Swap Arrangement

On 21 May, MAS and the Bank of Japan renewed the existing bilateral swap arrangement between Singapore and Japan. Singapore can swap Singapore dollars up to the equivalent of USD3 billion in Japanese yen. Japan can swap Japanese yen up to the equivalent of USD1 billion in Singapore dollars. With the renewal of the arrangement, the two economies will be able to continue to exchange their local currency for US dollars from each other. This gives flexibility to both economies in meeting their liquidity needs, while also promoting financial stability and better economic ties between Singapore and Japan.