SINGAPORE CORPORATE DEBT MARKET DEVELOPMENT 2020

SINGAPORE – GLOBAL CITY, WORLD OF OPPORTUNITIES

MAS Monetary Authority of Singapore

Contents

Foreword

Bond markets had a challenging start in 2019 due to the softening global economy and heightened trade tensions, but subsequent easing in US monetary policy and a truce in the trade conflict supported issuance volume in the second half. Global corporate bond issuances grew by 8%[1] to USD 7.22 trillion in 2019, compared to USD 6.68 trillion in 2018.

In Asia ex-Japan, bond issuance volume registered a 12%[2] growth to USD 1.52 trillion as many issuers took advantage of declining global interest rates to meet financing needs. This was driven by a 31%[3] increase in Asian issuances in G-3 currencies to USD 371 billion, while Asian local currency bond issuances grew by a more modest 7%[4] to USD 1.152 trillion in 2019.

Singapore's bond[5] market maintained the record issuance volumes of SGD 95 billion achieved in 2018, with SGD-denominated bond issuance registering good growth in 2019. The size of Singapore's total outstanding corporate bonds rose 10.2% to SGD 420 billion as of 31 December 2019.

While accommodative monetary policy was a key driver of growth for bond markets in the second half of 2019, the COVID-19 pandemic has caused significant disruptions to the bond markets in early 2020. Asia ex-Japan G-3 bond issuance volume fell from a high of USD 52 billion[6] in January 2020 to a low of USD 8 billion[7] in March 2020, with Singapore's bond market following the same trend.

In response to the COVID-19 pandemic, global central banks acted swiftly to provide liquidity, support market functioning and maintain the flow of credit to households and businesses. These measures restored confidence in the bond markets, allowing corporates to access the capital market in Q2 2020.

[1] Dealogic Debt Capital Markets Database.
[2] Dealogic Debt Capital Markets Database.
[3] Dealogic Debt Capital Markets Database.
[4] Dealogic Debt Capital Markets Database.
[5] Bonds refer to long-term debt i.e. debt securities with a tenure of more than 1 year.
[6] Dealogic Debt Capital Markets Database.
[7] Dealogic Debt Capital Markets Database.

Similarly, Singapore's bond market also gradually reopened towards the end of Q2 2020. As issuers return to the bond markets to access funding, MAS can support these companies through the Global-Asia Bond Grant Scheme, launched in January 2020. The Global-Asia Bond Grant Scheme replaces its predecessor, the Asian Bond Grant Scheme[8], with an expanded scope to cover all issuers with an Asian nexus[9] and a doubling of the maximum funding to SGD 800,000 for jumbo-sized[10] bond issuances.

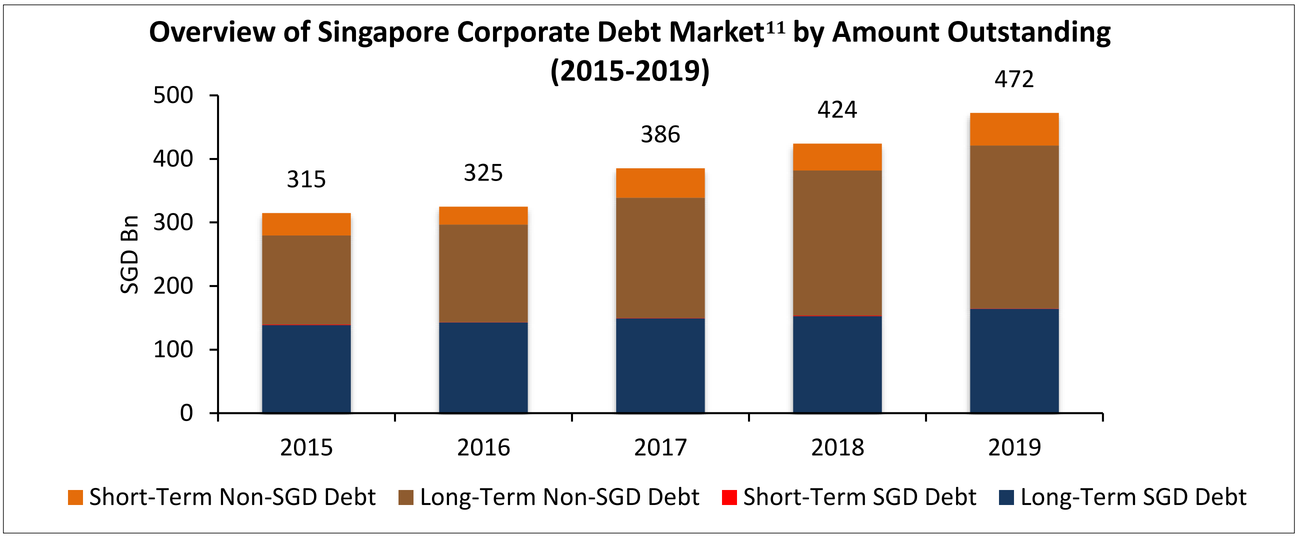
As Asia resumes its growth trajectory, MAS will continue to support companies' fundraising efforts through Singapore's bond market, and channel international capital to support Asia's growth.

[8] The Asian Bond Grant (ABG) Scheme was first launched in January 2017 to encourage bond issuances by defraying issuance costs for Asian companies looking to raise international capital from Singapore for the first time. The ABG Scheme was established with a maximum funding limit of SGD 400,000.

[9] This include issuers (i) with global headquarters in Asia; (ii) with business operations or projects in Asia; or (iii) who are issuing in any Asian local currency, etc.

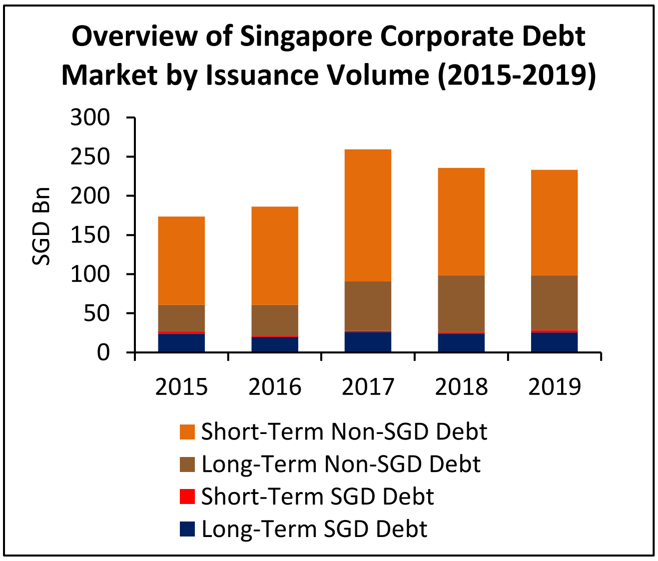
[10] Jumbo-sized bonds refer to bonds with an initial principal amount issued of at least USD 1 billion (or its equivalent in another currency).

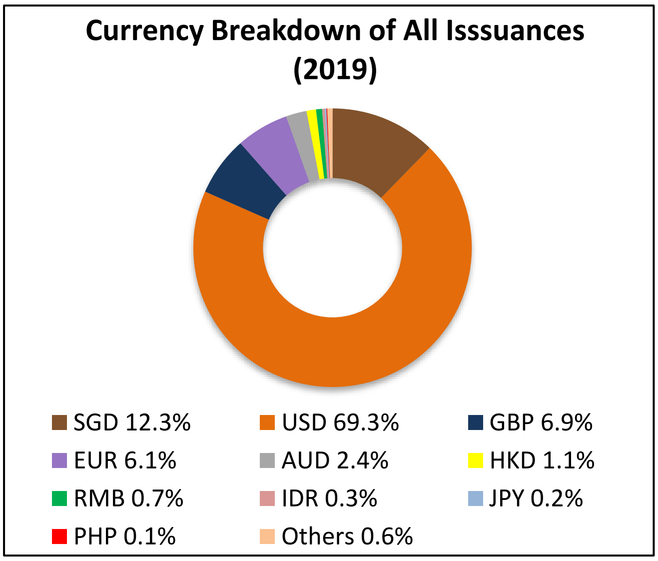
Key Highlights



SGD 233 billion of debt issued in 2019

Total outstanding debt grew 11% year-on-year to reach SGD 472 billion





Others include BRL, CAD, CHF, EGP, INR, KRW, LKR, MYR, NZD, THB

[11] Short-term debt refers to debt securities with a tenure of 1 year or less. Long-term debt refers to debt securities with a tenure of more than 1 year.

About the Report

The Monetary Authority of Singapore (MAS) releases an annual report of the Singapore corporate debt market, which covers debt issuances arranged by financial institutions in Singapore for the calendar year ending 31 December each year.

The annual report for year 2019 provides the key data on Singapore's corporate debt market for the calendar year ending 31 December 2019 and highlights notable issuances and market trends, including the initiatives launched by MAS to support companies in their efforts to raise international capital for growth.

Findings

Issuance and Outstanding Volume

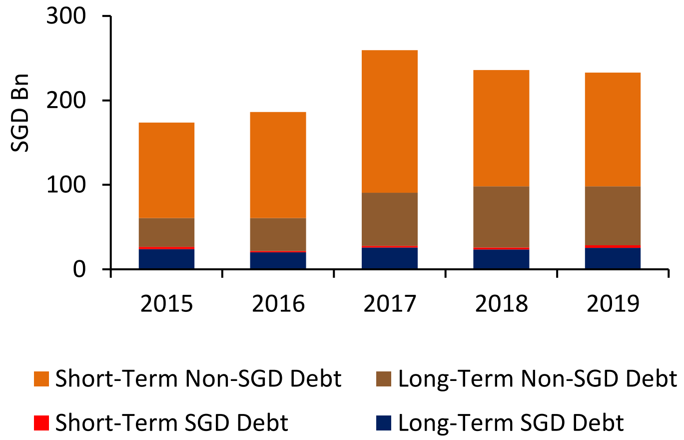
Singapore's corporate debt market performed well in 2019. Bonds issued (i.e. long-term debt) amounted to more than SGD 95 billion, matching the record-high achieved the previous year. Debt maturities lengthened as investors held a preference for longer tenure bonds in search for higher yields. For example, Singapore Press Holdings raised SGD 450 million via two perpetual issuances, tapping on the bond market for the first time since 2010.

Total debt (i.e. short-term and long-term) issued reached SGD 233 billion in 2019, close to the SGD 236 billion issued in 2018. Non-SGD debt issuance volume amounted to SGD 204 billion, compared to SGD debt issuances of SGD 29 billion (Chart 1), underscoring the strong international characteristics of Singapore's corporate debt market.

Total debt (i.e. short-term and long-term) outstanding grew 11% year-on-year to reach SGD 472 billion, representing a CAGR of 8.5% since 2015 (Chart 2). SGD debt outstanding reached SGD 165 billion while non-SGD debt outstanding reached SGD 307 billion.

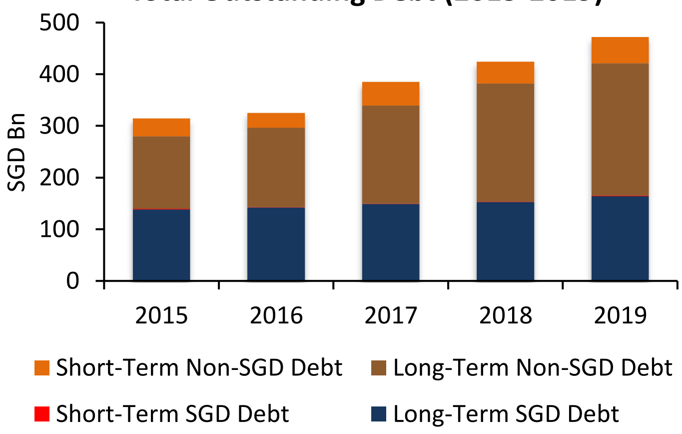
SGD 233 billion
Total Debt Issued

[Chart 1]
Issuance Volume (2015-2019)



SGD 472 billion
Total Outstanding Debt

[Chart 2]
Total Outstanding Debt (2015-2019)

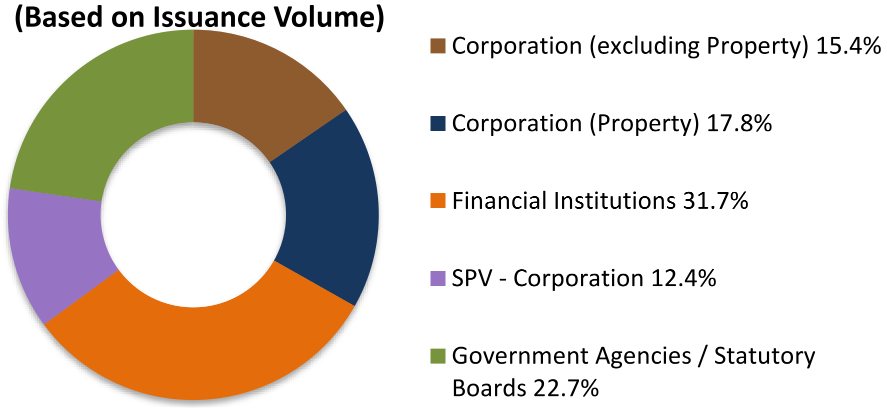


Issuers and Issuance Currencies

DIVERSITY OF ISSUERS

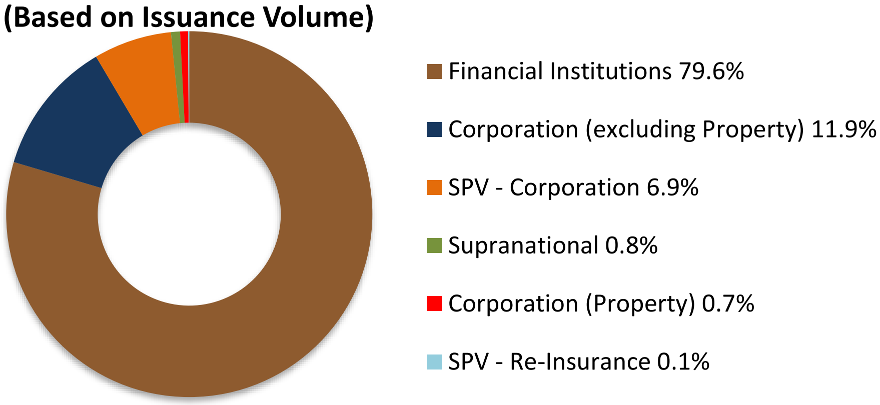
The SGD corporate debt market continued to serve the needs of a well-diversified range of issuers in 2019. Corporate issuers accounted for majority of issuance volume, at 45.6% for both non-property and property corporations (including SPVs) (Chart 3), an increase of 6.9% over last year. This included Sembcorp Industries, which issued a SGD 1.5 billion 5-year bond and Singapore Airlines, which issued a SGD 750 million 5-year bond. Financial institutions with a share of 31.7% came in next, close to their share of 31.0% in 2018. Government agencies and statutory boards accounted for 22.7%, a decline of 7.6% from 2018. Notably, Land Transport Authority of Singapore issued SGD 2.9 billion of 35-year and 40-year notes, which were well-received by the market. The market also saw new SGD issuers such as Thomson Medical Group and Nexus International School.

[Chart 3]
SGD Denominated Debt Issuer Profile (2019)
(Based on Issuance Volume)



In the non-SGD corporate debt market, financial institutions continued to account for the majority of issuances, at 79.6% (Chart 4). Amongst non-financial institutions, corporations (excluding property) formed the largest segment. They include SMC Global Power Holdings Corp., which issued a USD 500 million perpetual bond, and Bright Food Singapore Holdings Pte. Ltd., which issued a EUR 500 million 5-year bond.

[Chart 4]
Non-SGD Denominated Debt Issuer Profile (2019)
(Based on Issuance Volume)



Issuers and Issuance Currencies

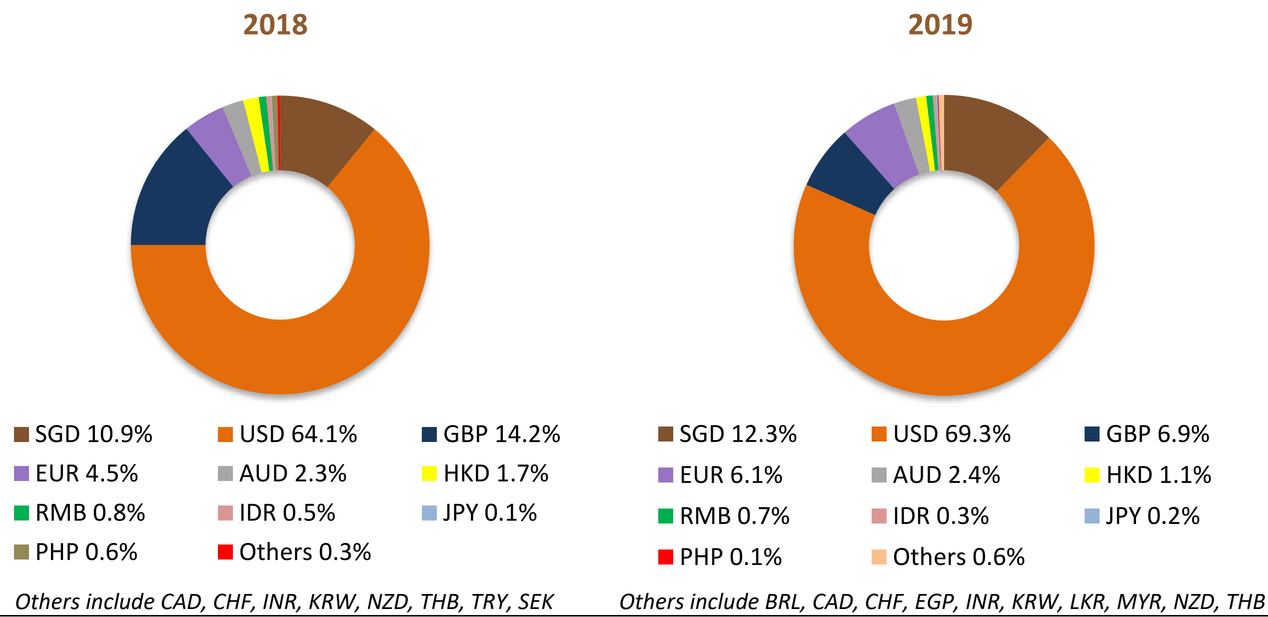
SINGAPORE AS A MULTI-CURRENCY FIXED INCOME CENTRE

Singapore's debt market continued to support issuers' funding needs in foreign currencies. Non-SGD debt issuances accounted for 87.7% (SGD 204 billion) of total debt issuances in 2019 (Chart 5), in line with 2018.

USD remained the primary currency of issuance, accounting for 69.3% of total issuance volume in 2018, (Chart 5). SGD came in with a share of 12.3%, reclaiming its spot as the second-largest currency of issuance. GBP came in third with a share of 6.9%, while EUR followed closely at 6.1%. Many issuers also issued multiple currencies, for example, BOC Aviation Pte. Ltd, which issued more than SGD 2.9 billion in foreign currencies such as USD, AUD and HKD, with majority of the tenures ranging from 1 to 5 years.

Green bond issuers also contributed to the diversity in currency raised. In 2019, SGD 4 billion worth of green bonds were issued, denominated in different currencies, including AUD, EUR, JPY and USD. Issuers include the Oversea-Chinese Banking Corporation, which issued a AUD 500 million 3-year green bond to finance assets and projects in accordance with its Sustainability Bond Framework, as well as AC Energy, Philippines-based Ayala Corporation's energy arm, which issued a USD 300 million 5-year green bond to finance its renewable energy expansion around the region.

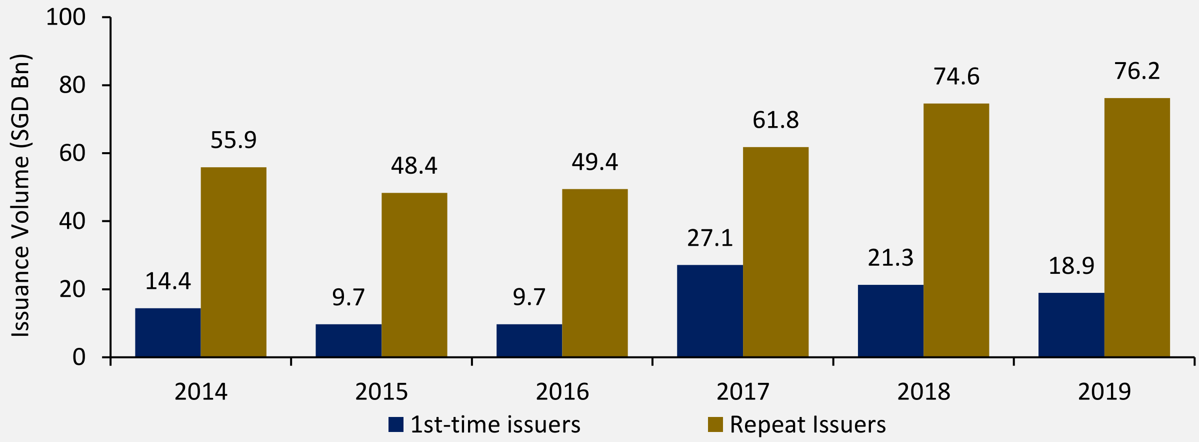
[Chart 5]
Currency Breakdown of Issuances



Supporting more issuers with an Asian nexus

MAS launched the Asian Bond Grant (ABG) Scheme on 1 January 2017. The ABG Scheme supports up to 50% of typical bond issuance-related expenses for first-time Asian issuers in Singapore's bond market, subject to a cap of SGD 400,000 for rated issuances and SGD 200,000 for unrated issuances.

Over the last three years, there has been a significant increase in debutant Asian issuers in Singapore's bond market, many of whom came through the ABG Scheme. The ABG Scheme has catalysed more first-time bond issuances in Singapore, resulting in a more than doubling of the average annual first-time issuance volume during the scheme period of 2017-2019 compared to the prior 3-year period (2014-2016).



Asia's rapid growth and urbanisation will be accompanied by significant financing needs, to support the expansion of Asian and international companies in Asia. Together with the need to spur economic growth and employment when the world recovers from the COVID-19 pandemic, there will be more infrastructure development and investment in the coming years. As an Asian centre for capital raising and enterprise financing, Singapore is well positioned to support the growing financing needs of these companies.

To strengthen Singapore's value proposition as Asia's leading bond centre and building on the success of the ABG Scheme, MAS launched the Global-Asia Bond Grant (G-ABG) Scheme[12] on 1 January 2020. The G-ABG Scheme has been expanded beyond Asian issuers and now supports all issuers with an Asian nexus[13]. We have also raised the maximum funding amount to SGD 800,000[14] for jumbo-sized[15] rated bond issuances.

The G-ABG Scheme will thus support more global enterprises seeking to raise capital through Singapore's bond market for the first time. We hope to work closely with the industry to further develop and grow Asia's corporate bond markets.

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[12] It replaces the Asian Bond Grant Scheme which expired on 31 December 2019.

[13] This include issuers (i) with global headquarters in Asia; (ii) with business operations or projects in Asia; or (iii) who are issuing in any Asian local currency, etc.

[14] Jumbo-sized bond issuances can receive a grant of up to SGD 800,000 for rated issuances or and SGD 400,000 for unrated issuances. Other issuances can receive a grant of up to SGD 400,000 for rated issuances and SGD 200,000 for unrated issuances.

[15] Jumbo-sized bonds refer to bonds with an initial principal amount issued of at least USD 1 billion (or its equivalent in another currency).

Digitalisation of the Qualifying Debt Securities Processes

The Qualifying Debt Securities (QDS) tax incentive scheme was introduced in 1998 to provide a conductive tax regime for debt issuances to be carried out in Singapore, thereby allowing the healthy development of Singapore's corporate debt market and a deepening of debt capital market capabilities for Singapore-based financial institutions. The recipients of the tax benefit are the noteholders i.e. investors of debt securities with QDS status will be accorded withholding tax exemption or a concessionary rate of tax.

While the QDS status of a bond is apparent[16] to investors at the time of the primary launch, investors in the secondary bond market may not have that information. These investors' representatives had to email MAS to verify the QDS status of each of their debt securities. As the entire enquiry process was manual, replies could take up to 7 working days depending on the volume of the debt securities.

Self-help for instantaneous response to enquires

More details of debt securities made available

Elimination of human errors from verification process

In 2019, MAS embarked on a journey to digitalise this service. We launched an online repository for QDS on the MAS website on 1 January 2020. Industry participants can now verify the QDS status of their debt securities directly through this QDS enquiry system with an immediate response. There was an average of 300 page-views per month in the first 6 months of 2020, with a corresponding significant fall in the number of email enquiries received.

Going forward, MAS will continue to enhance the work processes of the QDS scheme to achieve greater efficiency and digitalisation. This includes re-designing the workflow of Return on Debt Securities[17] submission to fully digitalise the submission process for issuers and achieve a truly straight-through processing, as well as to enhance the user experience of the QDS enquiry system for investors.

[16] QDS status of a bond is specified in the offering circular given to investors at primary launch.

[17] To qualify as a QDS, financial institutions have to submit a hardcopy Return on Debt Securities (RODS) form to MAS. We have also partially digitised the submission form in 2019 via a PDF-based softcopy submission. The main benefit of this new PDF form submission is the built-in validation rules to reduce human errors in form filing and increased the efficiency in the banks' submission of RODS.

Growing the Insurance Linked Securities Market in Singapore

As a well-recognised insurance, reinsurance and asset management hub in Asia, Singapore is in a prime position to support the growth of the insurance linked securities (ILS) market in the region. The ILS market will benefit from Singapore's deep debt capital market and our role as a leading Pan-Asian Asset and Wealth Management hub.

ILS is an alternative risk transfer mechanism that transfers insurance risks to the capital markets. For sponsors[18], ILS offers an alternative source of additional capacity to complement traditional insurance for peak risks like natural catastrophes. For investors, ILS provides diversification for their portfolios, given its low correlation with other asset classes. This could help provide added resilience for investment portfolios especially when there are fluctuations in the financial markets.

MAS' efforts to support the ILS market include: (i) improving natural catastrophe data quality and standardisation in the region; (ii) establishing adequate regulatory, tax and legal infrastructures; and (iii) catalysing ILS deal pipeline by introducing a new ILS grant scheme in January 2018 that would help to defray 100% of the upfront issuance costs of catastrophe bonds in Singapore.

Improve Nat Cat Data Quality & Standardisation

Enhance Regulation, Tax & Legal infrastructure for ILS

ILS Grant Scheme for Cat Bonds extended till 31 December 2022

These efforts have helped Singapore to establish itself as a viable ILS domicile in recent years. Since the inaugural catastrophe bond issuance by the Insurance Australia Group in 2018, Singapore has to-date (as of 31 July 2020) supported 9 catastrophe bond issuances, totaling USD 1.2 billion. These include landmark transactions such as:

- the first full Rule 144A catastrophe bond issued by Security First Insurance Company, which reflects Singapore's capabilities to support the most liquid type of ILS offering;
- the first Asian sovereign catastrophe bond covering earthquake and typhoon risks in the Philippines, which was also the first catastrophe bond listed on the Singapore Exchange; and
- the first Asian catastrophe bond covering typhoon and flood risks in Japan, sponsored by Mitsui Sumitomo Insurance.

MAS will continue to work with stakeholders to enhance our regulatory, tax and legal regimes. This will enable us to support a wider range of ILS risks (including pandemic, cyber and climate risks), different types of ILS instruments (such as reinsurance sidecars, collateralised reinsurance and industry loss warranties) and complementary structures (such as multiple issuances in one vehicle using segregated cells).

[18] Sponsor refers to the issuer of the ILS, and may also be known as the cedant of the ILS.

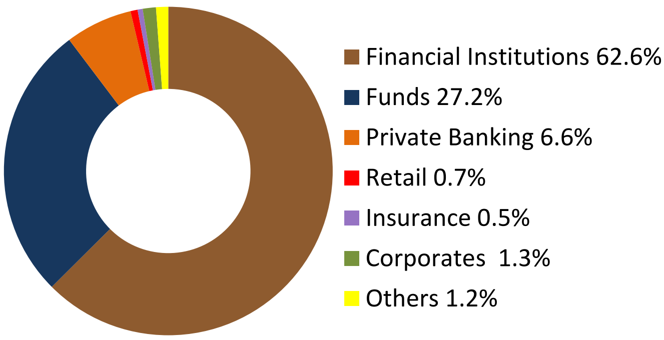
Investors

A wide range of investors, with different investment profiles, participated in Singapore's debt market (Chart 6):

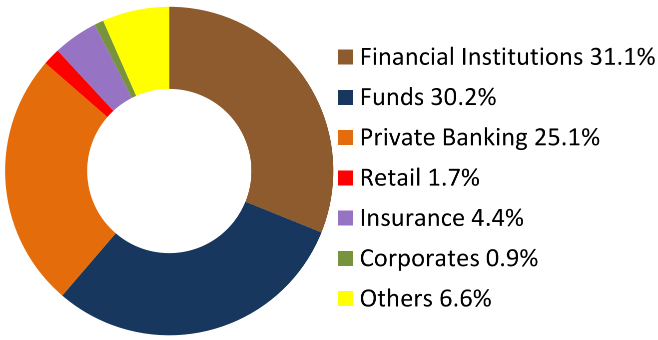
- Financial institutions continued to be significant participants in money markets here, taking up more than 60% of all short-term debt issuances.
- Fund managers (including insurers), financial institutions and private banks were all active participants in long-term issuances, supporting the strong and diverse investor base in this segment.
- Private banks and fund managers (including insurers) accounted for more than 60% of the investment demand in SGD debt, with demand from private banks overtaking fund managers (including insurers) in 2019.
- Financial institutions and fund managers (including insurers) remain the dominant investors in non-SGD debt, holding preferences in USD, GBP and EUR.

[Chart 6]

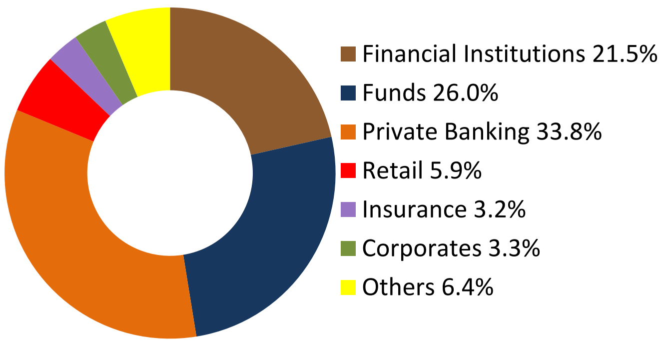
Investors in Short-term Issues (2019)



Investors in Long-term Issues (2019)



Investors in SGD Issues (2019)



Investors in Non-SGD Issues (2019)