SINGAPORE CORPORATE DEBT MARKET DEVELOPMENT 2016

SINGAPORE – GLOBAL CITY, WORLD OF OPPORTUNITIES

MAS Monetary Authority of Singapore

Contents

Foreword

Amidst the global economic slowdown, debt issuance globally declined by 13%[1] to USD 5.3 trillion in 2015, compared to USD 6.1 trillion a year before.

In Asia, local currency issuance fell 46%[2] to USD 407 billion in 2015 (2014: USD 758 billion), while G3 issuance held up better, falling 13% to USD 183 billion (2014: USD 210 billion). Yet Asian bonds continued to grow as an asset class – net inflows into Asia Ex-Japan bond funds grew from USD 0.18 billion in 2014 to USD 4.3 billion in 2015[3].

Although Asia's long-term story has not changed – positive economic prospects, favourable demographics, emerging middle class, on-going urbanisation – short-term, cyclical headwinds are weighing on capital market activity. The IMF expects growth in emerging and developing Asia to ease from 6.6% in 2015, to 6.5% in 2016, and further to 6.3% in 2017. Slower economic growth will not only dampen the amount of new debt companies need to raise for growth, but will also affect companies' ability to refinance existing debt.

Singapore's debt capital market are not immune from these trends:

- Total debt issuance reached SGD 174 billion in 2015, a reduction of 13% compared with SGD 200 billion in 2014;
- These were made up of 132 issuers, including 85 re-issuers, a decline of 17 issuers in total from 2014.

Besides weaker primary issuance, the Singapore bond market also faced its first default since 2009, after Indonesian mobile phone distributor Trikomsel missed interest payments toward the end of 2015.

[1] "Debt Capital Markets Review", Thomson Reuters, 2015.
[2] "Debt Capital Markets Review", Thomson Reuters, 2015.
[3] EPFR Global, Asia Ex-Japan Bond Fund Flow 2014-2015, Informa Business Intelligence, 2016.

Several issuers, from the oil and gas sector also ran into financial difficulties in 2016, arising from protracted weakness in energy prices.

Asian bond markets are likely to experience more volatility as market participants grapple with heightened geopolitical risks and the impact of tighter monetary policy in the US.

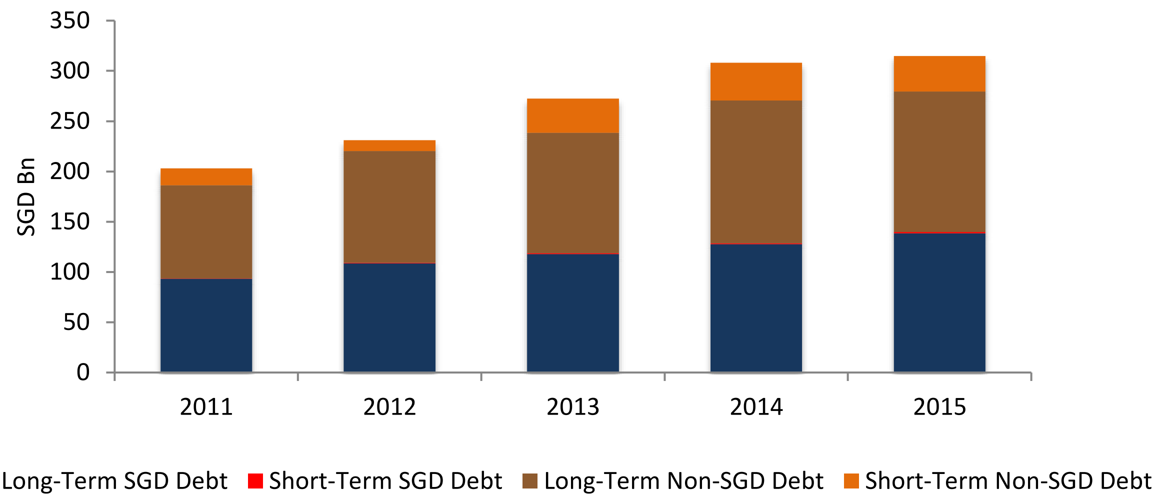
Against the rising risks of volatility is diminished secondary market liquidity. Morgan Stanley and Oliver Wyman estimate that industry balance sheets committed to bonds, foreign exchange and commodities contracted 25% over the past five years owing to tighter post-crisis regulations. This could decline another 10% in the next three to four years, with banks looking to trim capacity to improve returns on risk-weighted assets as regulatory costs and challenging markets continue to weigh on returns[4]. Market participants generally agree that bond market liquidity has become more challenging. This is the case globally and Singapore is no exception. Banks continue to provide prices for a majority of bonds issued here, although the amounts they are willing to transact in, may be smaller for weaker credits and issuances with small outstanding volumes.

Put together, these developments underscore the importance of a well-functioning secondary market. A functioning secondary market is critical for the sustainable growth of the bond market. To deepen the secondary market, MAS has been working with the industry on several initiatives over the years. For example, to improve price transparency, we collaborated with banks and service providers, such as Bloomberg and Markit, to make available end-of-day corporate bond prices on their platforms. In 2015, MAS operationalised the Securities Repo Facility, under which eligible banks can borrow certain Singapore Dollar corporate bonds via repo transactions to facilitate their market making activities. We are also engaging investors, issuers and intermediaries to assess if more can be done to facilitate an active repo market in order to deepen liquidity in bond markets.

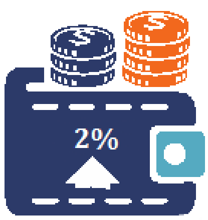
[4] "Learning to Live with Less Liquidity", Morgan Stanley and Oliver Wyman, 13 March 2016.

Key Highlights

Overview of Singapore Corporate Debt Market by Outstanding (2011 - 2015)



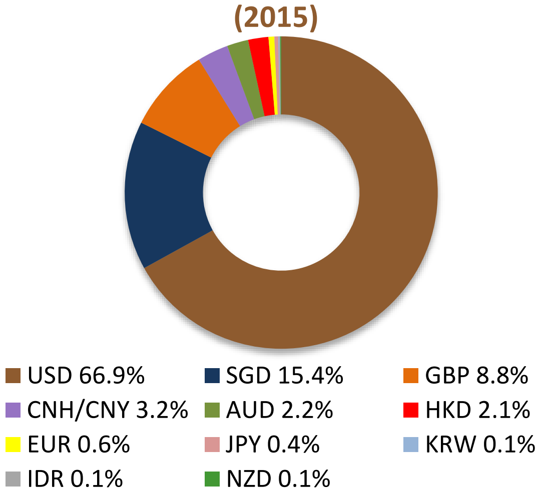
Debt issuance in 2015



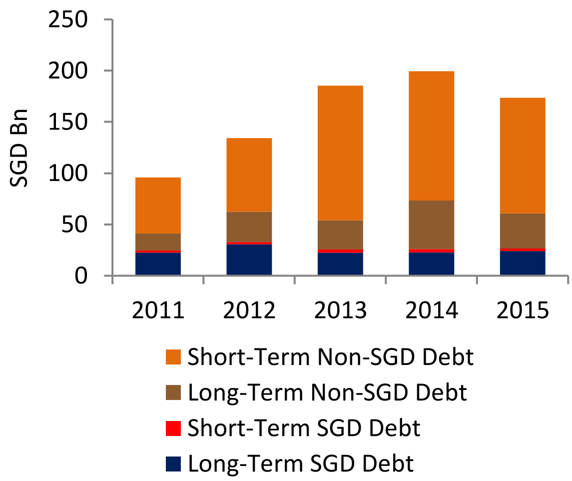
Singapore's corporate debt market grew 2% year-on-year to SGD 315 billion

132 issuers, including 85 repeat issuers

Currency Breakdown of All Issuances (2015)



Overview of Singapore Corporate Debt Market by Issuance Volume (2011-2015)



About The Report

The Monetary Authority of Singapore (MAS) carried out its annual survey of the Singapore corporate debt markets, for the year ending 31 December 2015.

The annual survey of the Singapore corporate debt market covered debt issues arranged by financial institutions in Singapore.

Besides reporting on the statistics on Singapore's corporate debt market, this report seeks to draw attention to topical issues in Asia's debt markets. In this context, it will highlight how Singapore is building up its international debt capital market to play a purposeful role in addressing these issues and challenges to support Asia's growth.

Findings

Corporate Debt Market

In 2015, new corporate debt issuance slowed to SGD 174 billion as the economic outlook for emerging economies weakened and the path of monetary policies in advanced economies became more uncertain (Chart 1).

Notwithstanding the lower new issuance volume, total outstanding debt grew 2% year-on-year to reach SGD 315 billion owing to fewer maturing issues. Outstanding SGD debt reached SGD 140 billion while non-SGD debt was SGD 175 billion. This represents a CAGR of 12% since 2011 (Chart 2).

Well-rated financial institutions and companies continued to play an important role in the growth of Singapore's debt capital market. For example, the Korea Development Bank raised more than SGD 450 million during the year in both SGD and USD, while the three local banks issued SGD 12 billion altogether.

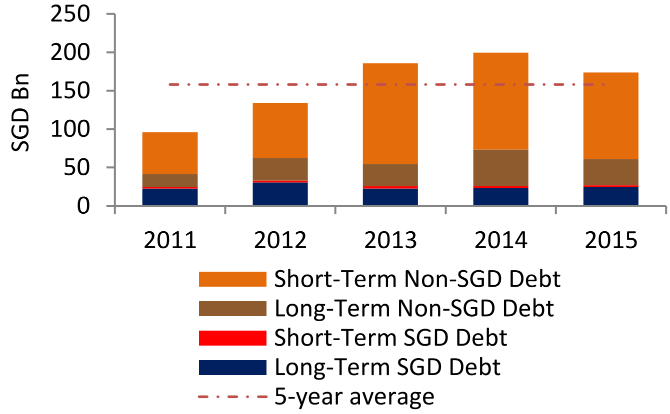
The debt market appears to have recovered slightly in 2016. In the first six months, corporate debt issuance volumes grew 12% over the same period in 2015. There are also new growth opportunities such as covered bonds and green bonds that can add greater diversity to product offerings in the Singapore market.

SGD

174 billion

Total Debt Issued

Chart 1
Issuance Volume (2011 – 2015)

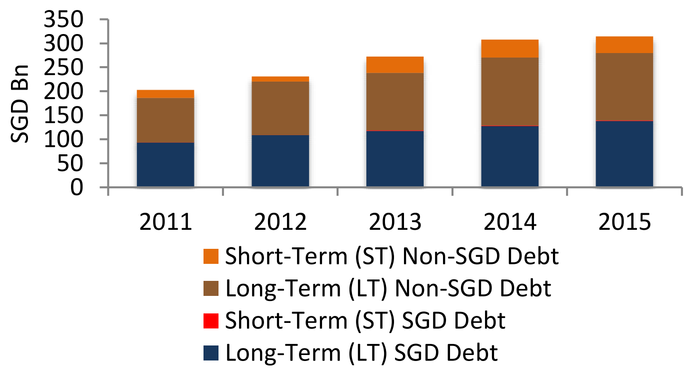


SGD

315 billion

Total Outstanding Debt

Chart 2
Total Outstanding Debt (2011 – 2015)



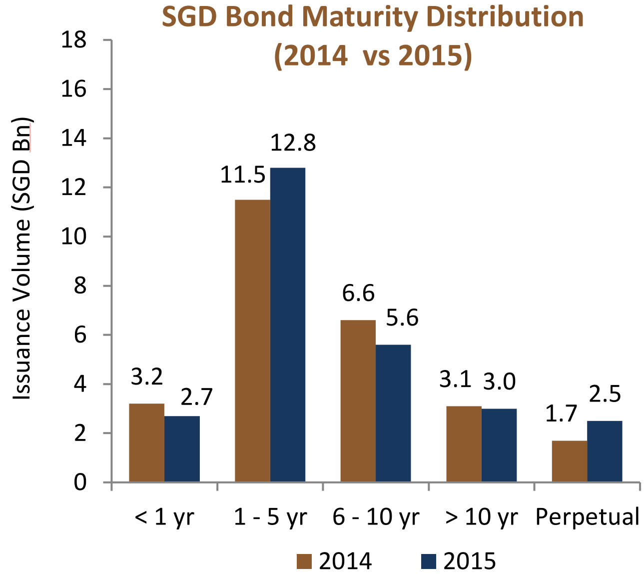
[3] Corporate debt refers to issuances by corporates, financial institutions, statutory boards/government agencies, supranationals, and special purpose vehicles.

Issuers and Issuances

As an international fixed income hub, local and foreign issuers can raise both SGD and non-SGD funding in Singapore. Non-SGD corporate debt issuance accounted for 85% (or SGD 147 billion) of total debt issuance in 2015, underscoring the strong international characteristics of Singapore's corporate debt market.

Issuers continued to tap the market for long-term funding (Chart 3). 42% of SGD debt issued in 2015 had maturities of above 5 years, comparable to the 44% in 2014. Some of the larger long-term SGD issues included Sembcorp's SGD 600 million perpetual bond and CapitaLand's SGD 650 million 10-year issue.

Chart 3
SGD Bond Maturity Distribution (2014 vs 2015)

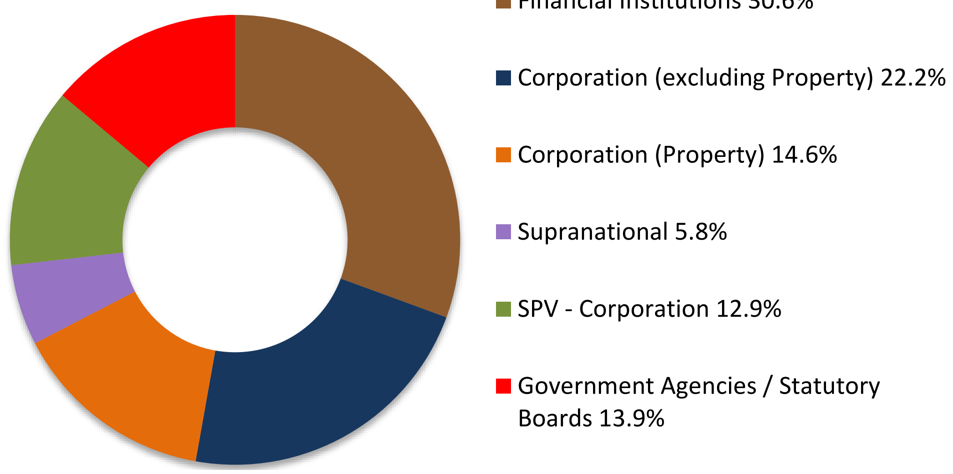


Diversity of Issuers

The SGD corporate debt market continued to attract a diverse range of issuers in 2015. Financial Institutions made up 30% of issuance volumes, up from 19% in 2014. The other categories of issuers included non-property corporates (22%), property corporates (15%), government agencies and statutory boards (14%), special purpose vehicles (13%) and supranational (6%) (Chart 4).

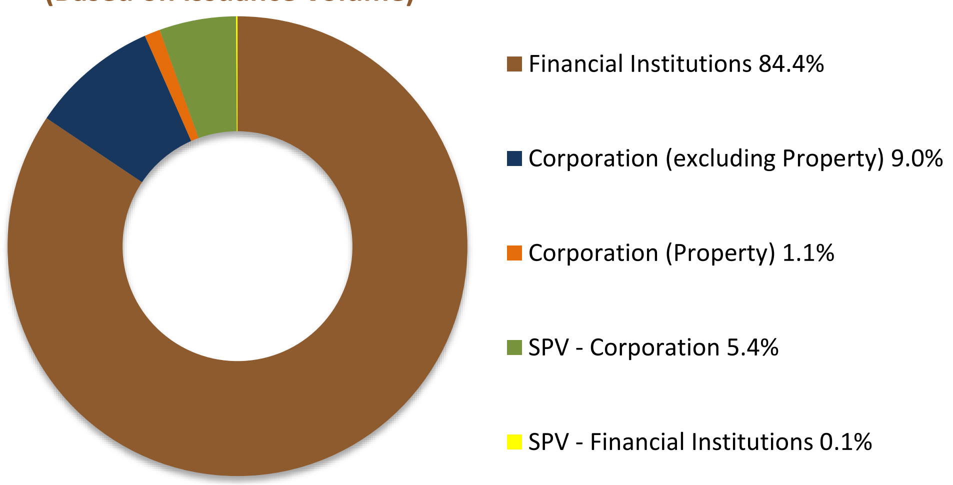
Local issuers remained key players in the SGD market. The Land Transport Authority was the largest non-financial institution issuer and raised a total of SGD 2.5 billion in 2015. Other notable corporate issuers included Frasers Centrepoint's 3.65% SGD 500 million 7–year bond, of which SGD 450 million was distributed to retail investors and SGD 50 million to institutional investors.

Chart 4
SGD Denominated Debt Issuer Profile (2015)
(Based on Issuance Volume)



In the non-SGD market, financial institutions made up the majority of total issuance volumes (see Chart 5). In the non-financial institution space, a notable issuer was BOC Aviation, who issued more than SGD 1 billion in foreign currencies including USD and RMB. The tenure of these issuances ranged from 5 to 7 years.

Chart 5
Non-SGD Denominated Debt Issuer Profile (2015)
(Based on Issuance Volume)



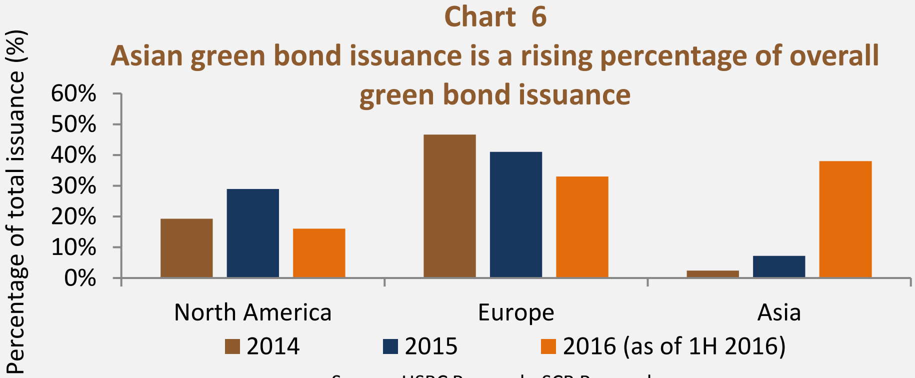
Green Bonds

The financial sector has an important role to play in catalysing broader adoption of sustainability practices, by channeling capital in ways that support sustainable development. This could be through facilitating greater access to the deep pool of private capital available, for example, in the green bond market.

The global green bond market has seen rapid growth in the past few years. Issuance of green bonds reached USD 41.8 billion[5] in 2015, and the trajectory is set to increase with Asian issuers expected to play an increasing role in driving green bond activity.

In the first half of 2016, issuance volume already reached USD 30.8 billion with Asia taking the largest market share of 38% (Chart 6).

Chart 6
Asian green bond issuance is a rising percentage of overall green bond issuance



Source: HSBC Research, SCB Research

There is clearly a role for Singapore's debt capital market to support the development of green financing needs in Singapore and Asia. Anchored by a broad community of asset managers and institutional investors seeking investment opportunities, these same success factors of Singapore's debt capital market puts it in a good starting position to develop a green bond market.

In August 2016, Singapore welcomed the listing of the world's first green offshore-rupee denominated bond from India's largest energy conglomerate, National Thermal Power Corporation (NTPC) Limited on SGX. Within Singapore, there is a pipeline of green projects which can be financed through green bonds. For example, under Singapore's Green Building Masterplan, there is a target to have 80% of buildings in Singapore to be green by 2030[6]. This represents a significant increase over the 30% level today and is an area which the green bond market can help channel capital into.

MAS will work with financial institutions, investors and issuers to explore how we can further encourage more international and domestic companies to leverage on Singapore's debt capital market for their green financing needs.

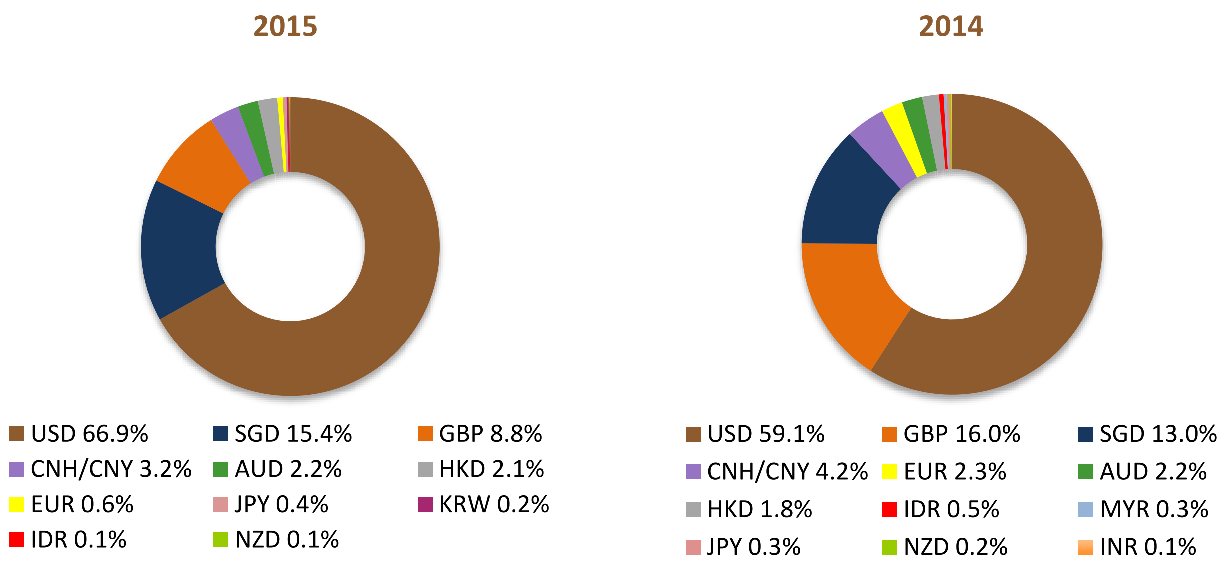
[5] Climate Bonds Initiative, 2016
[6] Over the 30% level attained in 2016

SINGAPORE AS A MULTI-CURRENCY FIXED INCOME HUB

Singapore's debt market continues to attract issuances in foreign currencies. Non-SGD debt issuance accounted for 85% (SGD 147 billion) of total debt issuance in 2015, close to the 87% in 2014 (Chart 1). The strong global investor base, made up of fund managers, banks and insurance companies has supported the demand for non-SGD denominated debt.

The USD remains the largest currency used in the debt market, accounting for two-thirds of total issuance volume in 2015 compared to just 59% in 2014 (Chart 7). Many issuers also issued in multiple currencies, for example, Nomura International Funding Pte Ltd issued more than SGD 3 billion in various foreign currencies including USD, EUR, JPY, KRW, CNY etc. The share of SGD debt increased slightly from 13% in 2014 to 15% in 2015.

Chart 7
Currency Breakdown of Issuances



FIRST TIME ISSUANCES AND RE-ISSUANCES

Re-issuances remained the key driver for issuance volumes, contributing more than 90% of total volumes in 2015 (Chart 8).

Success in previous issuance have led several corporates to issue in Singapore again. For example, after tapping the market in 2011 and 2012, Global Logistics Properties issued a 10-year USD 1 billion in 2015. The International Bank for Reconstruction and Development (IBRD) also returned to the market and issued a total of SGD 1.25 billion in 2015.

In line with the slowdown in the corporate debt market, both the number of first time and repeat issuers fell in 2015. On an overall basis, the total number of issuers tapping the market in 2015 remained higher than the average over the past four years (Chart 9), demonstrating the continued importance of the corporate debt market in serving the funding needs of regional companies.

In order to make it more attractive for Asian issuers to raise international capital in Singapore, MAS announced in November 2016 that it will introduce an Asian Bond Grant scheme in 2017. The scheme aims to broaden the issuer base in Singapore's bond market, which will add to the breadth and diversity of debt instruments for the investing community. For qualifying Asian issuances, the scheme will help to offset up to 50% of one-time issuance costs such as international legal fees, arranger fees and credit rating fees.

Chart 8
Re-issuance vs First time Issuance (2011-2015)

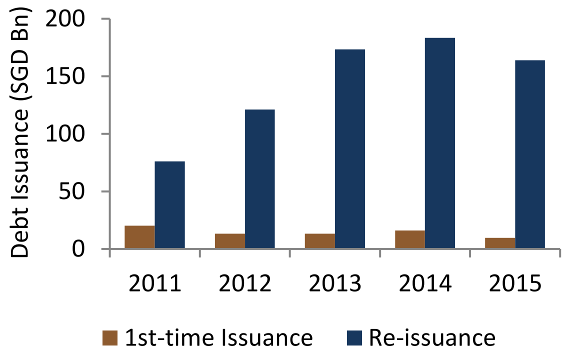
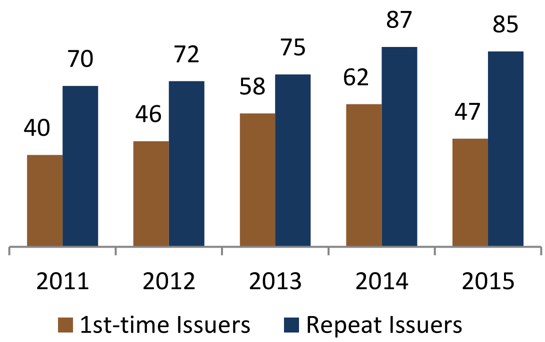


Chart 9
No. of Unique Issuers (2011-2015)

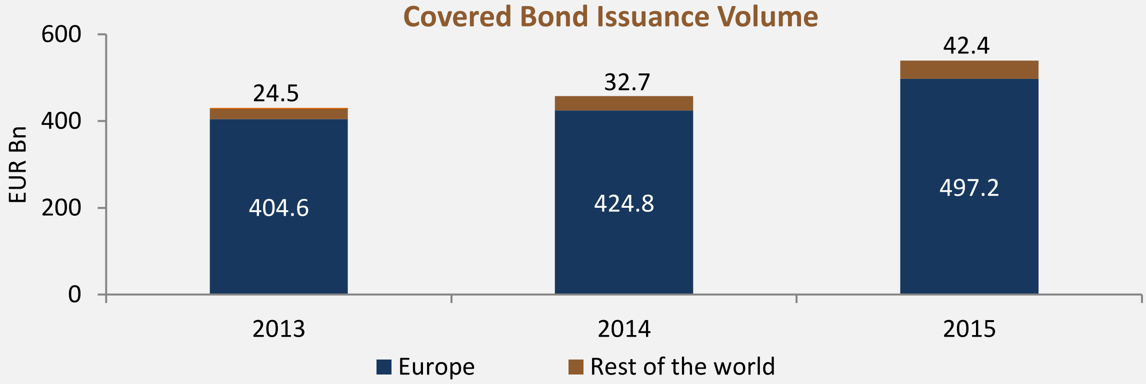


Covered Bonds

Covered bonds are issued by banks where the liabilities are secured by a cover pool, mainly mortgages. The introduction of covered bonds has extended the breadth of Singapore's bond market by presenting issuers a more diversified source of long term funding and investors a wider range of product offerings and investment options.

Having started off in Europe, covered bonds have since generated interest around the world, with regions such as South America (Brazil and Chile) and Africa (Morocco and South Africa) planning to introduce covered bonds in their own markets. The covered bond market in Asia is still in its nascent stage. South Korea and Singapore are the only two jurisdictions that have issued covered bonds in Asia. Kookmin Bank issued the first covered bond under South Korea's new legislative framework which the Korean Covered Bond Act passed in April 2014.

Chart 10
Covered Bond Issuance Volume



Source: European Covered Bond Fact Book 2012-2016

MAS recognises the growing issuer interest for covered bonds and released the revised MAS Notice 648 on 4 June 2015, setting out a regulatory framework for the covered bonds market in Singapore. Following that, DBS announced on 16 June 2015 that it had established a USD 10 billion covered bond program and issued Singapore's inaugural covered bond on 30 July 2015. UOB had also established a USD 8 billion covered bond program on 23 November 2015 and became the first bank in Asia to issue euro-denominated covered bonds on 3 March 2016.

Other jurisdictions in Asia are also starting to tap on the covered bonds market. In September 2016, China announced that Bank of China will issue a green covered bond while in India, covered bonds are being explored as an option to help Non-Banking Financial Companies (NBFCs) diversify funding sources and reduce dependence on bank financing. With more Asian entities becoming more active in this space, the covered bond market is set to gain greater traction in Asia.

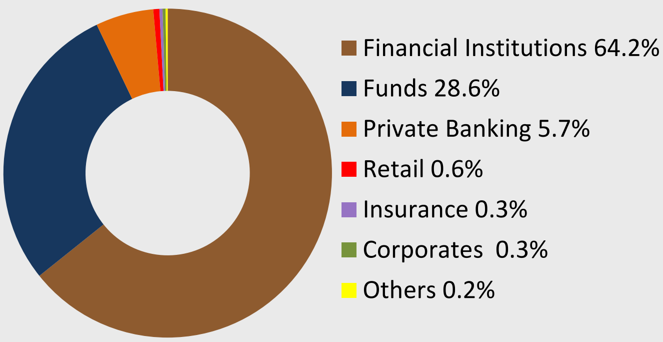
Investors

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

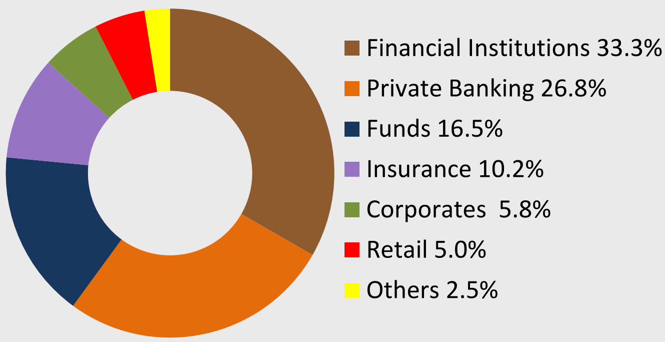
- Financial institutions continued to access a deep money market for liquidity management, taking up more than 60% of all short-term issues;
- Fund managers and insurance companies took up one-third of long-term issues, supporting the strong and diverse investor base in this segment;
- Financial institutions and private banks accounted for more than half of investments into SGD debt, with demand from financial institutions overtaking private banking clients compared to 2014;
- Fund managers and financial institutions remain the key investors in non-SGD issues, particularly in the USD, GBP and AUD.

Chart 11

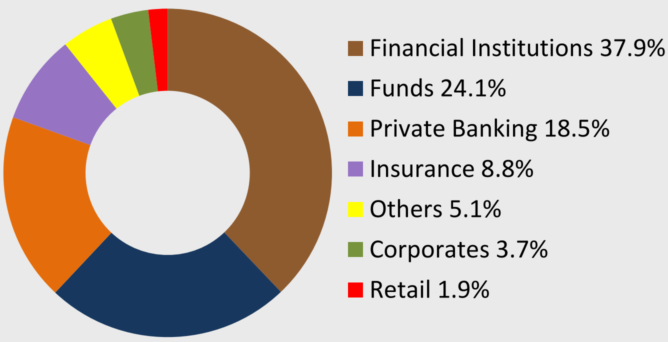
Investors in Short Term issues



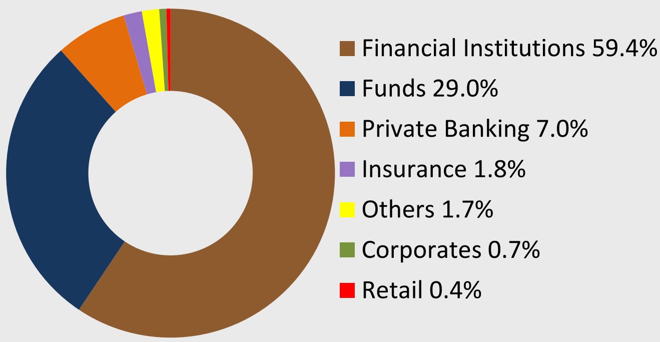
Investors in SGD issues



Investors in Long Term issues



Investors in Non-SGD issues



Intermediaries and Infrastructure

IMPROVING THE SECONDARY MARKET

Corporate bond market liquidity in Singapore has been declining, alongside international bond markets. Smaller bond issuances would face the most liquidity constraints.

As banks' capacity to warehouse risks on their books reduces, electronic trading platforms can play a role in aggregating liquidity across banks and investors. With existing fixed income platform operators here such as Bloomberg and MarketAxess, and new entrants like SGX Bond Pro looking to expand their bond offerings, we are hopeful that this will strengthen the secondary market and facilitate direct trading between market participants.

As part of efforts to facilitate trading, MAS has worked with the industry on the following:

- Banks can borrow high quality SGD corporate bonds from MAS' inventory, which enhances banks' ability to make markets for such bonds, and in turn develops the repo market.

- Various information providers now publish end-of-day indicative prices and indices for SGD corporate bonds, and this enhances price transparency.

Investors should take into account both the liquidity of a bond and the financial strength of the issuer when making investment decisions. Investors building their own investment portfolios should take special care to diversify and avoid concentrated exposure to any one investment or issuer. One way for individual investors to gain exposure to a diversified portfolio of bonds in a cost-efficient manner is to invest through bond funds. MAS has for many years promoted the development of index bond funds in the regional markets, through the Asian Bond Fund (ABF) initiative led by the EMEAP Group. Today, there are many such offerings, some of which can be bought and sold through the exchange as exchange-traded funds (ETFs).

Wholesale Bond Listing

Exchanges play an important role in connecting issuers to investors by providing a transparent and fair listing platform and hence, serve as a key market infrastructure to the financial market. Listing debt securities allow issuers to elevate their profile, boost investor confidence and raise capital efficiently, reaching a wider international investor base.

Today, the Singapore Exchange (SGX) is a venue chosen by global issuers for listing of their debt securities in Asia, with more than 40% market share of listed G3 bonds in Asia Pacific. There are over 2,000 debt securities listed on SGX issued by 750 issuers from over 30 countries. These debt securities are denominated in 19 currencies (Chart 12) and represent amounts exceeding USD 800 billion across diversified sectors (Chart 13). In 2015, SGX saw a total of 395 debt securities listed with SGD 165 billion raised.

SGX provides timely access to issuers via an efficient, streamlined listing application processes. The SGX e-Submission System allows issuers to submit their application through a secured online submission process. Debt securities listing applications are also processed within 1 business day for wholesale bond applications and within 10 business days for retail bonds. SGX continues to improve its offerings to create value for issuers and investors. In 2015, SGX launched the Evaluated Bond Price webpage to increase investor awareness of listed bonds and improve the price discovery process.

Chart 12
Currency Distribution

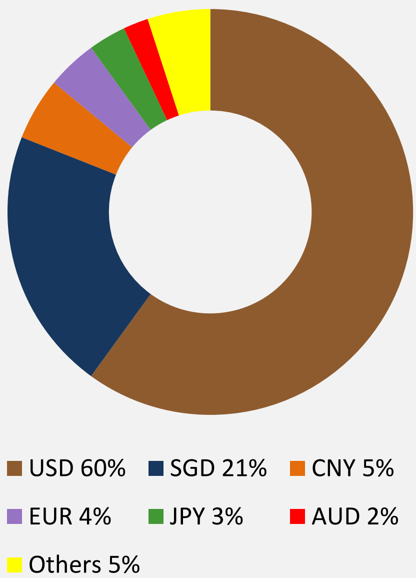


Chart 13
Distribution by Sectors