

SURVEY OF SINGAPORE TREASURY ACTIVITIES IN 1999

The Monetary Authority of Singapore conducts a survey of the Singapore treasury industry annually to monitor the developments of the markets. The survey of treasury activities in 1999 was sent to all banks, merchant banks and securities houses. A total of 252 or 99% of the financial institutions responded to the survey. The results of the survey is also available on the website of the Monetary Authority of Singapore (MAS) at www.mas.gov.sg.

OVERVIEW OF TREASURY MARKETS

The treasury industry globally has undergone major changes over the last few years. Consolidation of the industry has led to liquidity being dominated by a few big players. The traditional treasury industry is gradually evolving into one comprising a group of global players focusing on achieving economies of scale alongside smaller niche players. The introduction of the Euro in 1999 has further set the foundation for a single, Europe-wide capital market and encouraged banks to consolidate, streamline and centralise their euro operations.

The rapid advancement of technology has led to the emergence of new delivery channels for the distribution of a growing array of financial services. A wide range of participants including corporate treasury professionals, fund managers and even retail investors are now able to directly access a new generation of web-based foreign exchange and derivatives products and services. All these have led to greater competition, pressure on margins and provided a stronger impetus towards consolidation worldwide. Institutions are offering an increasing array of structured and exotic products for higher margins. In Singapore, the industry is also experiencing similar changes, in line with global developments.

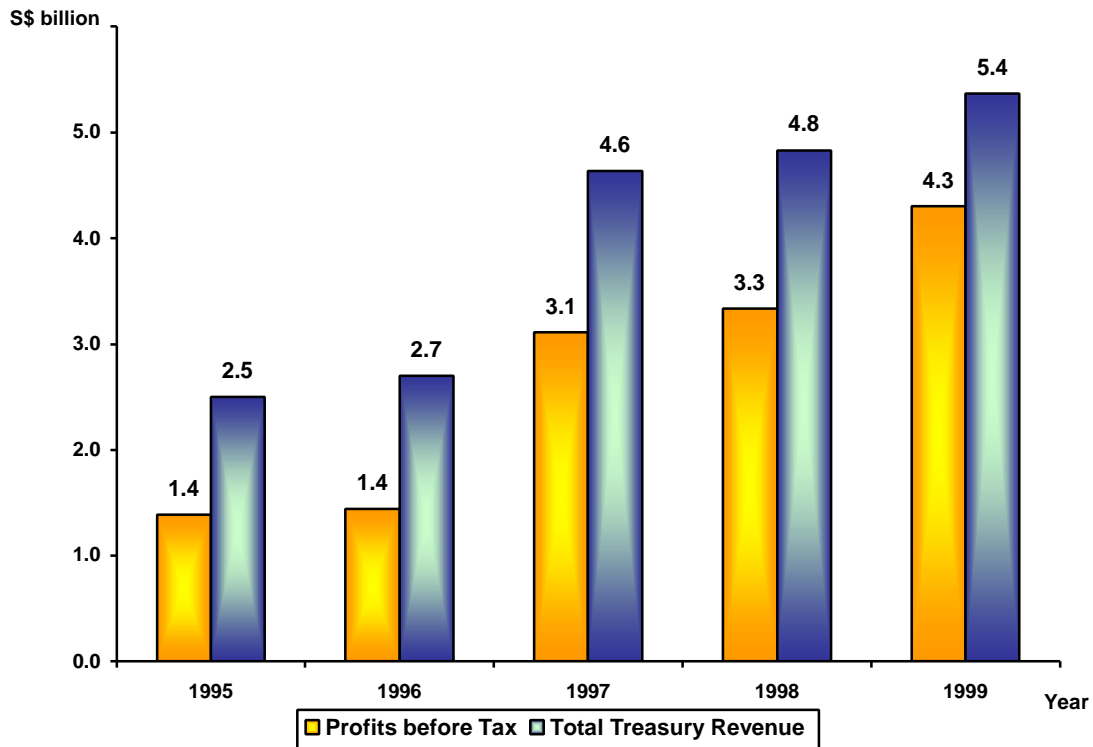
The new initiatives introduced to develop the Singapore capital market has contributed to the robust growth of capital market and money market activities. In contrast, foreign exchange activities have been consolidating in the last few years.

REVENUES AND PROFITS

Total Treasury Revenue and Profit before Tax

1999 has been a good year for the Singapore treasury industry. Total treasury revenue continued to grow to a record S\$5.4 billion, a 12.5% increase from the previous year's revenue of S\$4.8 billion. Profit before tax also showed a substantial increase of 30%, from S\$3.3 billion in 1998 to S\$4.3 billion in 1999. [Refer to Chart 1.] The strong growth in profits can be attributed to the higher profit margins from an increasing amount of capital and money market activities, as well as the lower costs of treasury operations.

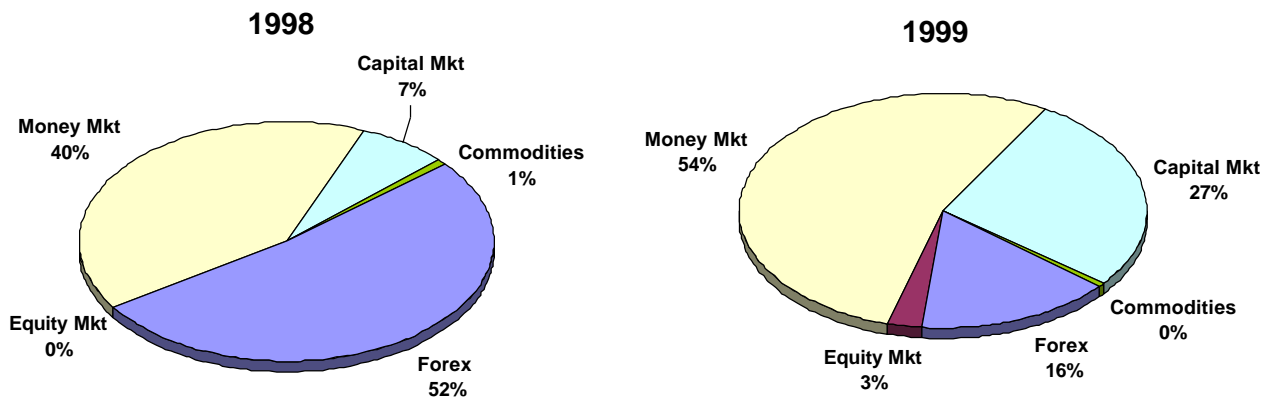
Chart 1 : Treasury Revenue and Profits (before Tax)



Breakdown of Treasury Revenue

In contrast to previous years where the treasury industry was dominated mainly by foreign exchange activities, last year saw a significant shift in contribution from the money market and capital markets. Money market activity provided the largest revenue for treasury operations in Singapore in 1999, contributing more than half (54%) of the total industry revenue. This was followed by capital market activity, which contributed 27% of total revenue, a significant increase from the 1998 contribution of 7%. As a result of the increased volume of debt capital market origination and trading activities in Singapore in 1999, combined money market and capital market activities generated 81% of total treasury revenue, almost double the combined contribution of 47% the previous year. [Refer Chart 2]

Chart 2 : Breakdown of Treasury Revenue Contribution by Instruments



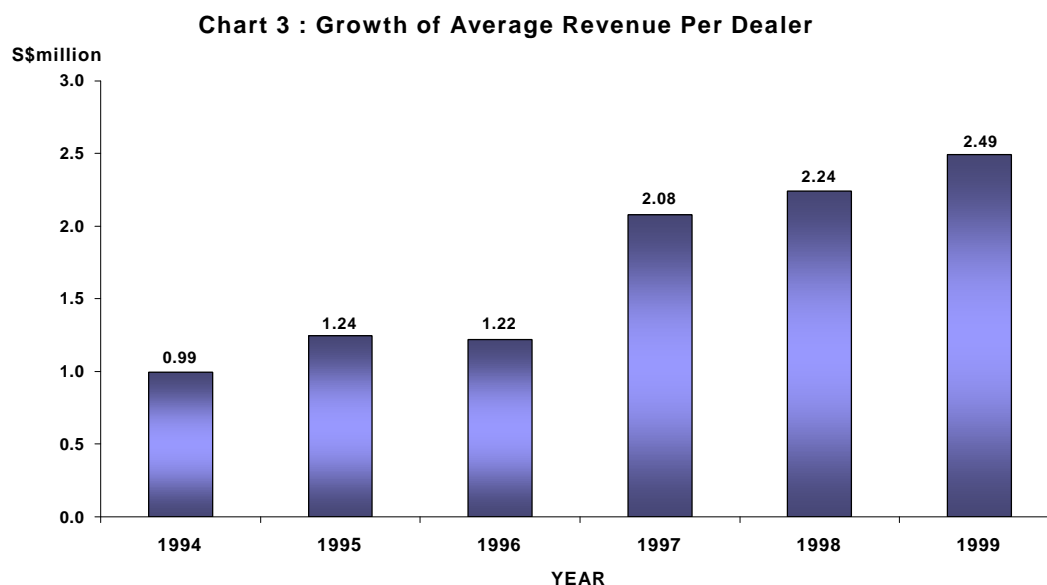
Inter-bank deposits continued to be the main revenue generator in the money markets, contributing about 78% of money market revenue. In the capital markets, in line with Government initiatives to promote Singapore as an international debt hub, debt securities trading was the main contributor to capital market revenue, followed closely by the trading of interest rate derivatives. The growing significance of capital market activities could also be attributed to the increased maturity and sophistication of Asian corporates following the crisis.

With greater awareness of the importance of risk management and better understanding of more sophisticated instruments, demand for such products has increased.

Globally as well as locally, foreign exchange activity continued to slow down in 1999. Increased consolidation amongst industry players has led to a decline in the number of foreign exchange participants worldwide. The introduction of the Euro at the beginning of 1999 leading to the loss of intra-European currency trading opportunities, has further contributed to the decline in the volume of foreign exchange trading activities globally and in Singapore. There was also a slowdown in activities in the later part of 1999, amidst fears of Y2000 disruptions.

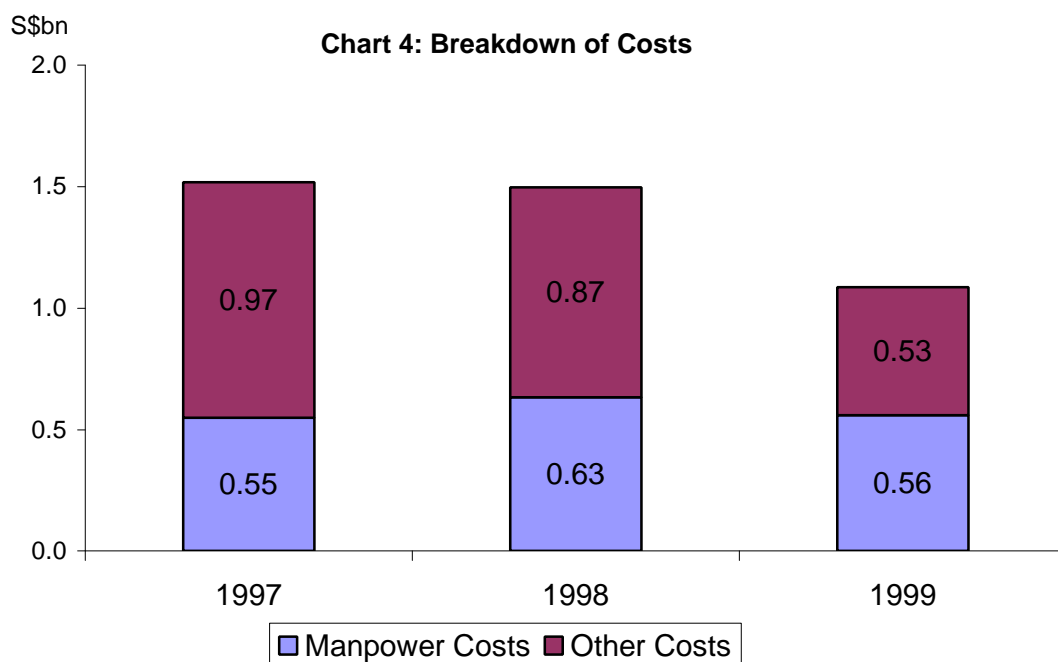
Average Revenue Per Dealer

Average revenue per dealer has been on an increasing trend, rising by 11% to S\$2.49 million in 1999 as compared to 1998. [Refer Chart 3]



Costs

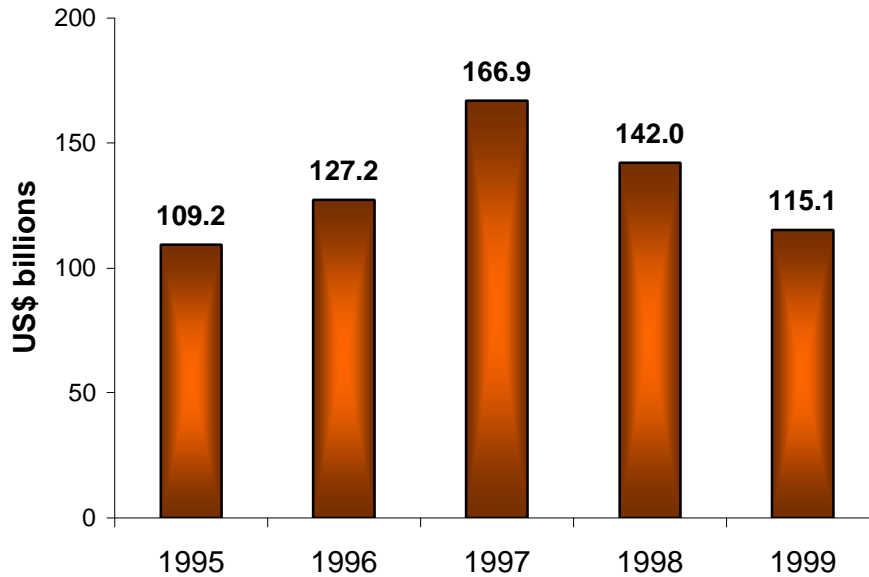
Total costs declined 27% from S\$1.5 billion in 1998 to S\$1.1 billion in 1999. As banks continued in their consolidation and streamlining efforts, manpower costs declined by 11% whilst other costs (including costs of premises and technology expenditures) fell by a substantial 39% in 1999. [See Chart 4.]



AVERAGE DAILY FOREX TRADING VOLUME

In 1999, the Singapore foreign exchange market recorded an average daily turnover of US\$115.1 billion. This was a decline of 19% compared to the previous year due to lower volatility in the market in 1999 as well as the relatively modest investor risk appetite. [See Chart 5.]

Chart 5 : Singapore Average Daily Forex Trading Volume



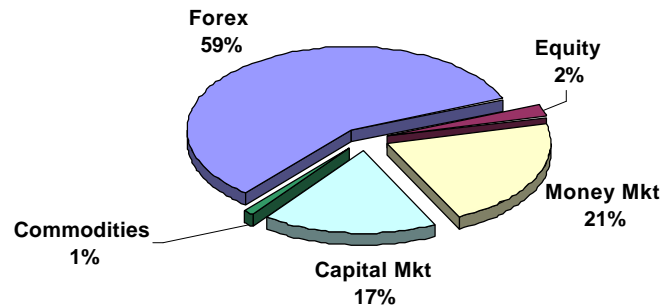
STAFFING

The Singapore treasury industry saw a 5.7% increase in the number of professionals employed, from 2,036 in 1998 to 2,153 in 1999.

In line with the trends seen in previous years, the number of professionals in capital markets continued to increase, showing a rise of 20% to 376, as capital market activity continued to grow. The number of professionals in money markets also showed a healthy increase of 7% in 1999 to 457. The number of equity (53) and foreign exchange dealers (1,246) remained relatively steady. Commodity dealers (21) registered the largest decline in staff strength.

As with previous years, the foreign exchange sector continued to hire the most number of treasury dealers followed by the money markets segment. [See Chart 6].

**Chart 6 : Breakdown of Treasury Dealers by Markets
(1999)**



LOOKING AHEAD : NEW BUSINESS AREAS

When asked about new business areas and new instruments which survey respondents were developing, 15% of the financial institutions surveyed indicated that they are already offering a wider range of structured products, including credit derivatives, asset-backed securities, equity derivatives and other asset-liability management instruments. These financial institutions were optimistic about the continued growth in demand for structured products in Asia. This was attributed to the increased awareness of better risk management techniques, post-crisis; the increase in the level of M&A activity; as well as the active restructuring of corporate debt in Asia, after the Asian financial crisis.

Looking ahead, money market and capital market activities are expected to continue to grow steadily. In particular, survey respondents were confident that the local debt capital markets will continue to gain ground as one of the major contributors to the growth of the Singapore treasury industry. Instead of simply executing plain vanilla trades, treasury players here are increasingly providing more value-added services such as offering advisory services, and more sophisticated capital market products.