SINGAPORE CORPORATE DEBT MARKET DEVELOPMENT 2017

SINGAPORE – GLOBAL CITY, WORLD OF OPPORTUNITIES

MAS Monetary Authority of Singapore

Contents

Foreword

Despite the continued economic slowdown globally and geopolitical uncertainties surrounding 2016, global debt market activity rebounded from last year's decline. New debt issuance increased by 10%[1] to reach USD 6.8 trillion for the whole of 2016.

In Asia, local currency debt issuance grew 20%[2] to USD 1.05 trillion, while Asian G-3 debt issuance grew 17% to USD 231 billion. Asian bonds continued to grow as an asset class – net inflows into Asia Ex-Japan bond funds for 2016 more than tripled compared to the year before[3]. There were also a few notable sovereign rating upgrades since 2016, namely Indonesia and South Korea.

Singapore's debt capital market has remained resilient:

- Total debt issuance reached SGD 186 billion in 2016, an increase of more than 7% compared with SGD 174 billion in 2015.
- This was issued by 122 issuers, including 85 repeat issuers.
- Total outstanding debt grew 3% to SGD 325 billion in 2016.

The world economy is experiencing a cyclical upturn in 2017 with growth expected across both advanced and emerging economies. However, this has yet to translate to a significant increase in global debt issuances in 2017.

Global debt issuance volumes remained flat[4] at USD 3.7 trillion (year-on-year) in the first half of 2017. The Asian debt market saw mixed results[5], with Asian local currency issuance declining 27% to USD 383 billion (year-on-year) while Asian G-3 volumes rose 70% to

[1] Dealogic Debt Capital Markets Database.
[2] Dealogic Debt Capital Markets Database.
[3] EPFR Global, Asia Ex-Japan Bond Fund Flow 2015-2016, Informa Business Intelligence, 2016.
[4] Dealogic Debt Capital Markets Database.
[5] Dealogic Debt Capital Markets Database.

reach USD 184 billion (year-on-year) by the first half of 2017[6].

Asian bond markets are likely to experience continued weakness from the oil and gas sector's slowdown as well as the deleveraging in a few markets.

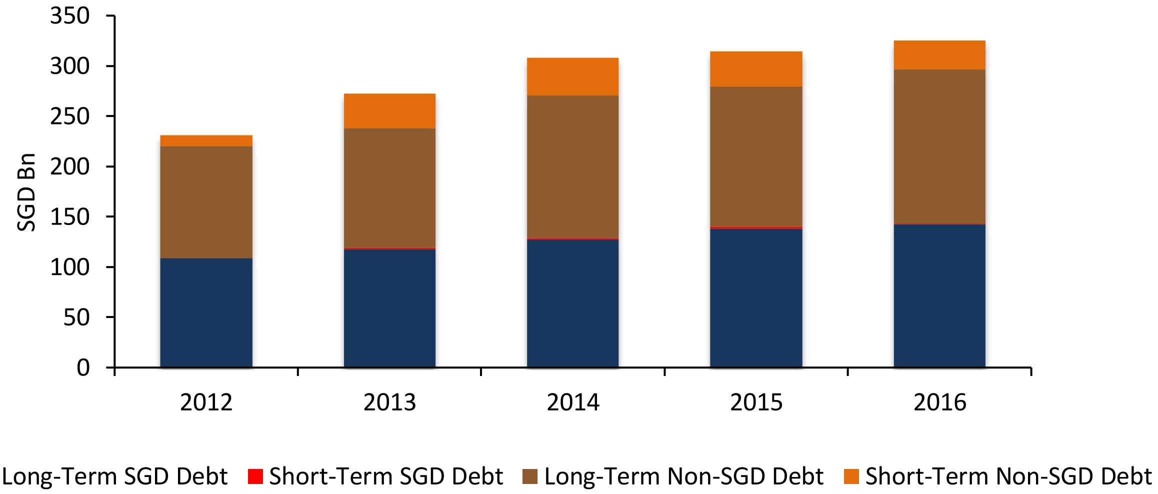
Despite these headwinds, Asia's medium-term growth prospects remain intact, supported by favourable macro trends and demographics. The region's financing needs will continue to grow especially in the area of long-term capital for infrastructure development and sustainable growth.

Singapore's strong ecosystem of debt investors and arranging institutions, alongside professional services firms, offers an excellent platform to support the growing and increasingly sophisticated debt financing needs of the region.

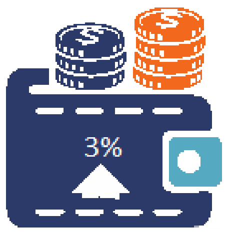
[6] Dealogic Debt Capital Markets Database.

Key Highlights

Overview of Singapore Corporate Debt Market by Outstanding[7] (2012-2016)



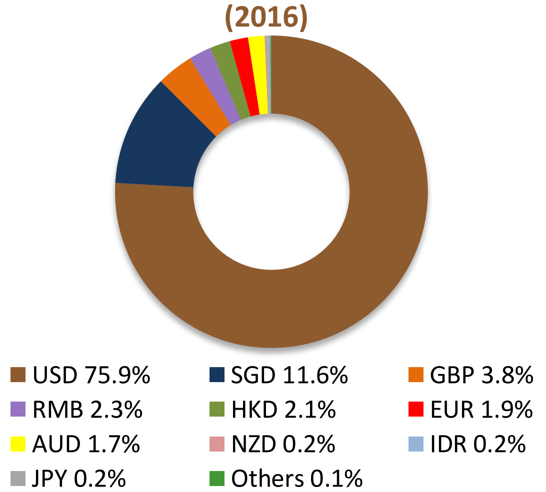
Total debt issuance grew 7% year-on-year to reach SGD 186 billion



Total outstanding debt grew 3% year-on-year to reach SGD 325 billion

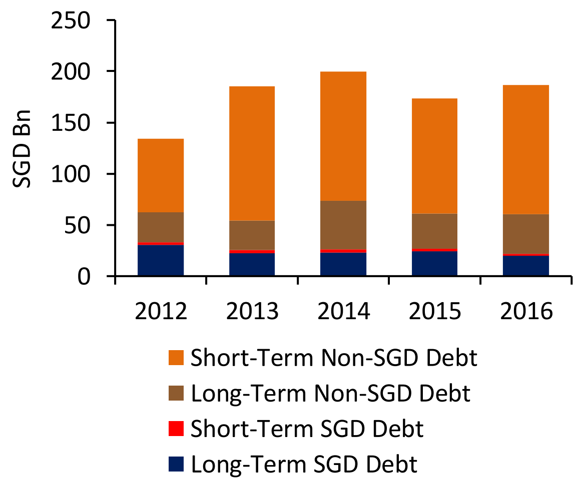
122 issuers, including 85 repeat issuers

Currency Breakdown of All Issuances (2016)



Others include KRW, THB, LKR, CAD, INR, CHF

Overview of Singapore Corporate Debt Market by Issuance Volume (2012-2016)



[7] 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) carried out its annual survey of the Singapore corporate debt markets, for the year ending 31 December 2016.

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

Besides providing the statistics on Singapore's corporate debt market, this report will also share the recent initiatives launched by MAS to support companies in their efforts to raise international capital for growth.

Survey Findings

Corporate Debt Market

Despite the slowdown in economic conditions for emerging Asia, Singapore's corporate debt issuance volumes increased moderately in 2016.

Total debt issued grew 7% year-on-year to reach SGD 186 billion in 2016, from SGD 174 billion in the previous year Growth was primarily driven by increased issuance of non-SGD denominated bonds (Chart 1) as issuers sought to raise international capital to finance regional and global growth.

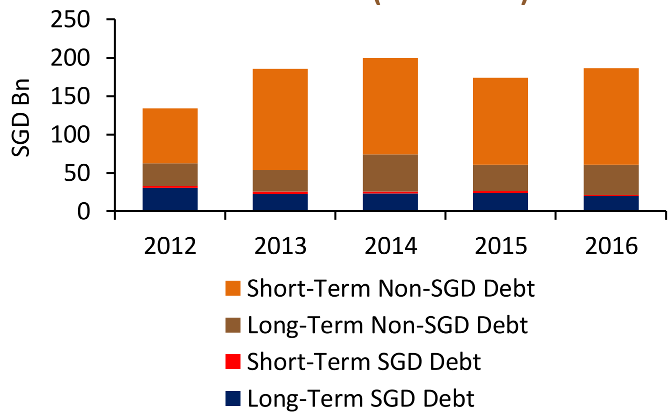
In 2016, the debt market here also saw a wider range of instruments being issued by banks as well as non-bank corporations, such as UOB's euro-denominated covered bond which was the first of its kind in Asia. Chongqing Western Modern Logistics Industry Zone Development Construction Co. Ltd also raised USD 500 million from international investors out of Singapore to fund infrastructure development in China.

Total debt outstanding grew marginally by 3% year-on-year to reach SGD 325 billion, representing a CAGR of 9% since 2012 (Chart 2). SGD debt outstanding reached SGD 143 billion while non-SGD debt outstanding was SGD 182 billion.

SGD 186 billion

Total Debt Issued

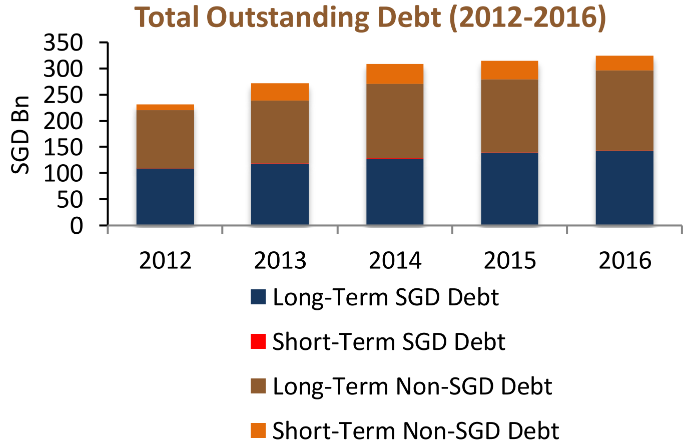
Chart 1
Issuance Volume (2012-2016)



SGD 325 billion

Total Outstanding Debt

Chart 2
Total Outstanding Debt (2012-2016)

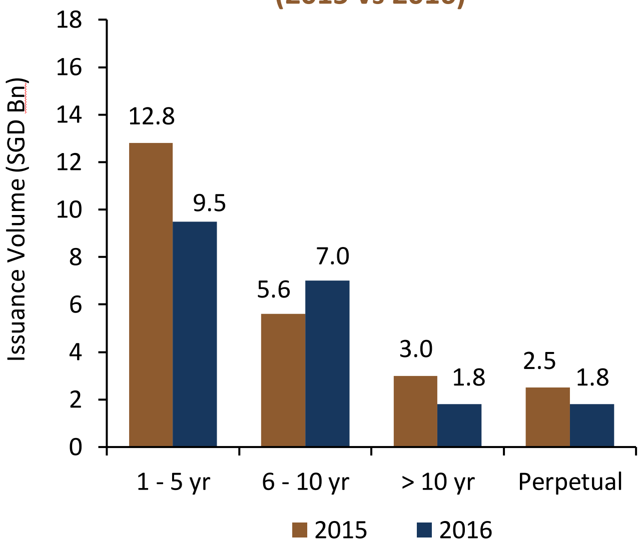


Issuers and Issuances

Non-SGD corporate debt issuance accounted for more than 80% of total debt issuance in 2016, underscoring the strong international characteristics of Singapore's corporate debt market.

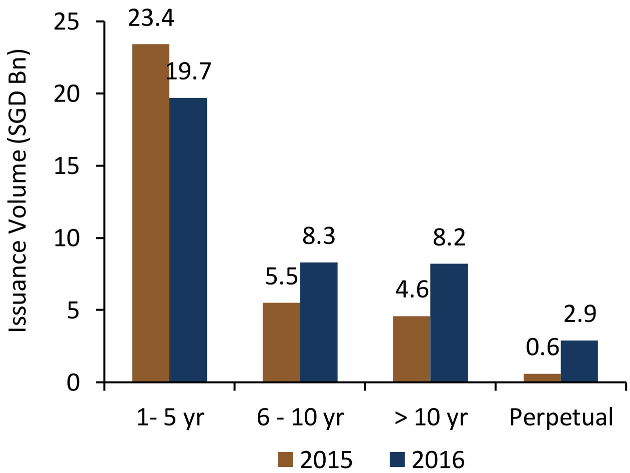
In the SGD corporate debt market (Chart 3), in line with the overall fall in debt issuances, issuance volumes across most maturities were lower in 2016 when compared to 2015, with the exception of issuances with maturity of 6-10 years. Some of these include ABN AMRO's SGD 450 million 10-year issue and HDB's SGD 700 million 7-year issue.

Chart 3
SGD Debt (>1 yr) Maturity Distribution (2015 vs 2016)



In the non-SGD corporate debt market (Chart 4), increased issuances in the longer tenures totaling SGD 8.7 billion more than offset the fall in issuances with a maturity 1-5 years between 2015 to 2016 of SGD 3.7 bilion. Some of the issuers in the longer tenures include Temasek Financial's EUR 500 million 12-year issue and DBS Group's USD 750 million perpetual.

Chart 4
Non-SGD Debt (>1 yr) Maturity Distribution (2015 vs 2016)

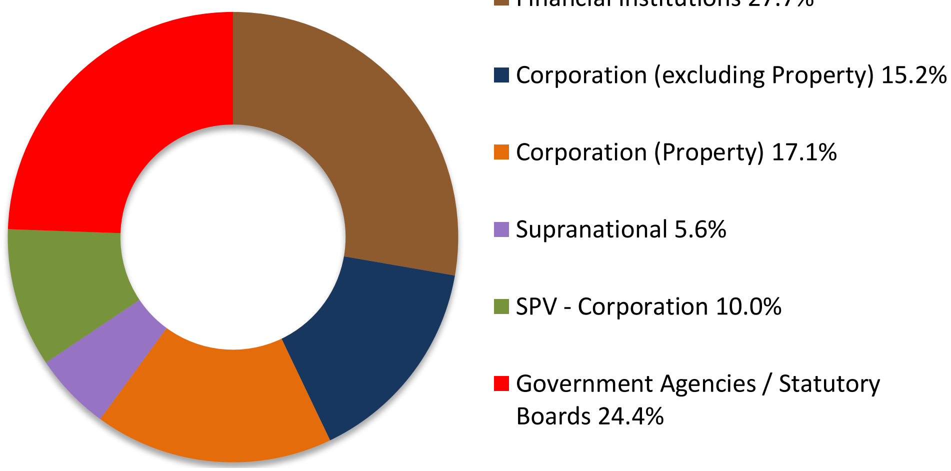


DIVERSITY OF ISSUERS

The SGD corporate debt market continued to attract a diverse range of issuers in 2016. Financial institutions accounted for 28% of issuance volumes, about the same as in 2015. The other categories of issuers included non-property corporates (15%), property corporates (17%), government agencies and statutory boards (24%), special purpose vehicles (10%) and supranational (6%) (Chart 5).

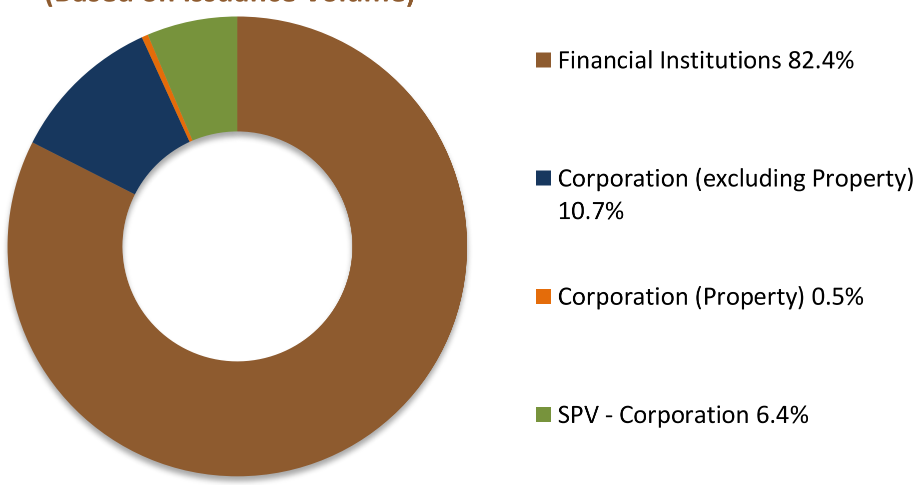
Local issuers remained key participants in the SGD market. United Overseas Bank Limited issued a SGD 750 million perpetual, making it the largest financial institution issuer in 2016. Other notable corporate issuances included Ausnet Services' SGD 200 million long tenure hybrid bond which is due to mature in 2067.

Chart 5
SGD Denominated Debt Issuer Profile (2016)
(Based on Issuance Volume)



In the non-SGD corporate debt market, financial institutions also accounted for the majority of total issuance volumes (Chart 6). In the non-financial institution space, corporations (excluding property) was the largest segment. A notable issuer was Olam International Limited, which issued more than SGD 1.2 billion in foreign currencies including USD and JPY, with majority of the tenures ranging from 1 to 5 years.

Chart 6
Non-SGD Denominated Debt Issuer Profile (2016)
(Based on Issuance Volume)

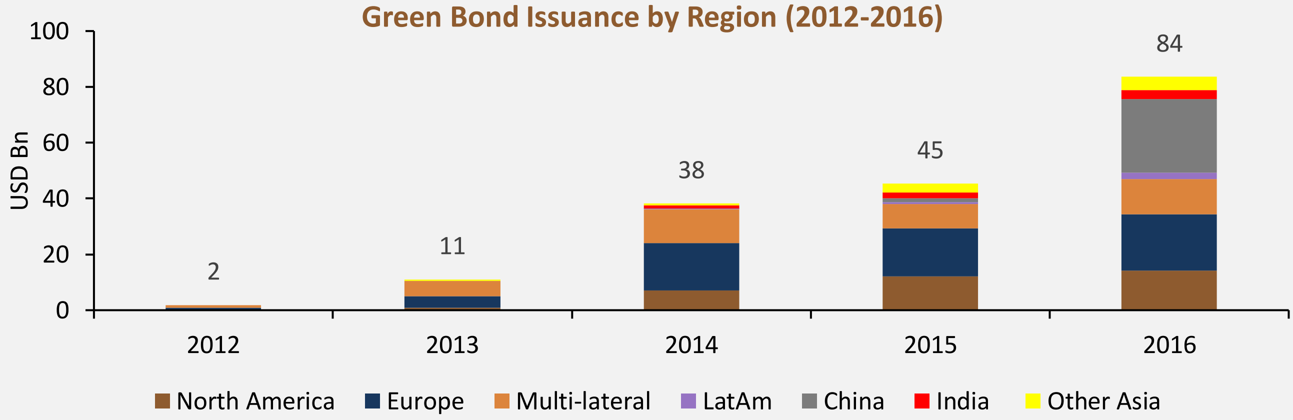


Encouraging Green Bonds

MAS has launched a Green Bond Grant Scheme on 1 June 2017 to support the issuance of green bonds in Singapore. The Green Bond Grant Scheme aims to remove the frictional costs of issuing green bonds. Under the scheme, issuers of green bonds that obtain an external review will be able to offset 100% of their external review expenses, subject to a funding cap of S$100,000 per issuance.

While 2016 was yet another record year for green bond issuances globally, it was notably marked by the rise of Asian issuers whose share grew to one-third of world issuances (Chart 7). This trend is expected to continue, with Asia continuing to account for a significant part of global green bond issuance volume in 2017.

Chart 7
Green Bond Issuance by Region (2012-2016)



Source: HSBC Research

MAS is taking active steps to promote sustainable financing in our financial sector. With more asset owners mobilising capital into sustainability-focused products, green bonds is emerging as a growing asset class in Asia.

MAS aims to nurture a purposeful green bond market in Singapore to serve sustainable development in Asia. In April 2017, City Developments Limited (CDL) issued Singapore's first green bond of SGD 100 million. CDL successfully financed its investments in energy saving and efficient infrastructures through the green bond. In July, DBS became the first financial institution in Singapore to issue a green bond of USD 500 million.

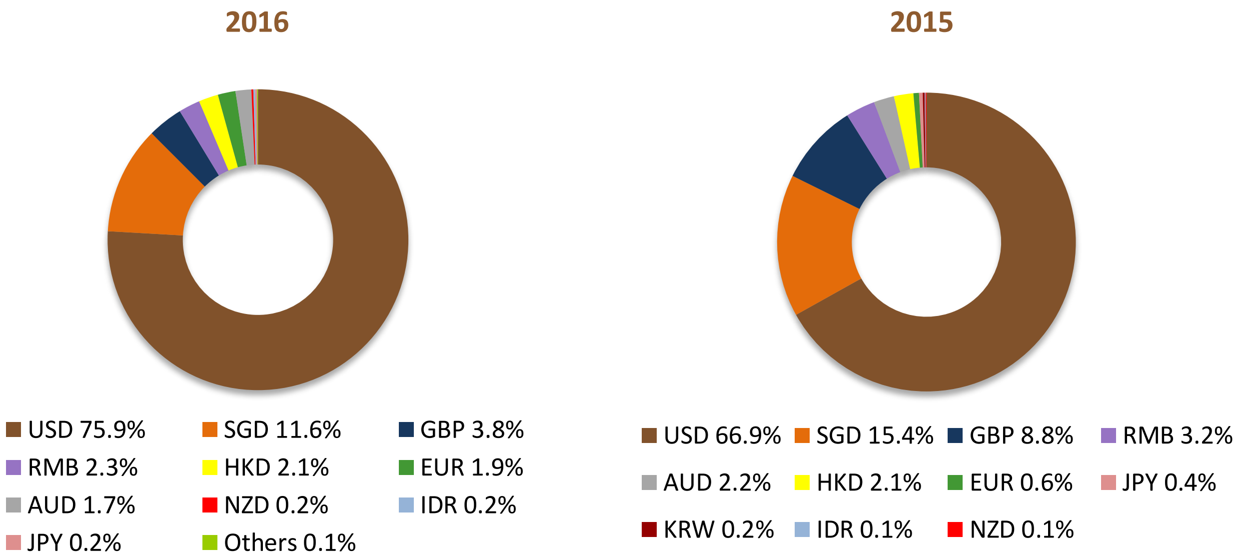
We hope that international and domestic issuers will tap on Singapore's green bond market to finance sustainable growth initiatives and gain access to a diversified pool of environmentally responsible investors.

SINGAPORE AS A MULTI-CURRENCY FIXED INCOME CENTRE

Singapore's debt market continues to attract issuances in foreign currencies. Non-SGD debt issuance accounted for 89% (SGD 165 billion) of total debt issuance in 2016, above 85% in 2015 (Chart 8). The strong global investor base in Singapore, comprising 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 three-quarters of total issuance volume in 2016 compared to two-thirds in 2015 (Chart 8). Many issuers also issued in multiple currencies, for example, Nomura International Funding issued more than SGD 2.7 billion in various foreign currencies including EUR, USD and HKD. The share of SGD decreased marginally from 15% in 2015 to 12% in 2016, a reflection of the weaker sentiments in the SGD debt market in the second half of 2016.

Chart 8
Currency Breakdown of Issuances



Others include KRW, THB, LKR, CAD, INR, CHF

FIRST TIME ISSUANCES AND REPEAT ISSUANCES

Repeat issuances continued to drive issuance volumes, contributing more than 90% of total issuance volumes in 2016 (Chart 9).

Singapore's debt market is fully accessible to all issuers and investors. The efficient ecosystem in place to support the funding raising needs of issuers has led several companies to issue in Singapore repeatedly. For example, Hitachi International Limited has been tapping Singapore's debt market over more than a decade, raising over SGD 2 billion in total.

The number of first time unique issuers fell from 47 in 2015 to 37 in 2016 (Chart 10). Notwithstanding the decline, total issuance volume attributed to these first time issuers was comparable to the amount they raised in 2015 (Chart 9). This reflects the strong demand from international investors for bonds raised in Singapore. Examples of notable first time issuers include Bright Food Singapore Holdings, a subsidiary of Chinese food and beverages manufacturing multinational, Bright Food Group Pte. Ltd, as well as Jubilant Pharma Limited, a subsidiary of Indian pharmaceutical and life sciences multinational, Jubilant Life Sciences Limited.

To enhance Asian bond issuance in Singapore, MAS has also introduced the Asian Bond Grant in 2017 to defray the issuance costs of first-time issuers, looking to raise international capital from Singapore.

Chart 9
First time Issuance vs Repeat Issuance
(2012-2016)

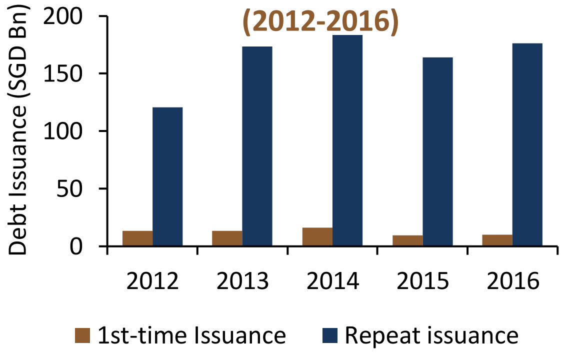
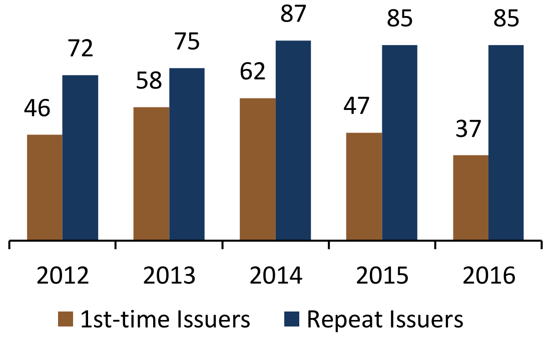


Chart 10
No. of Unique Issuers
(2012-2016)



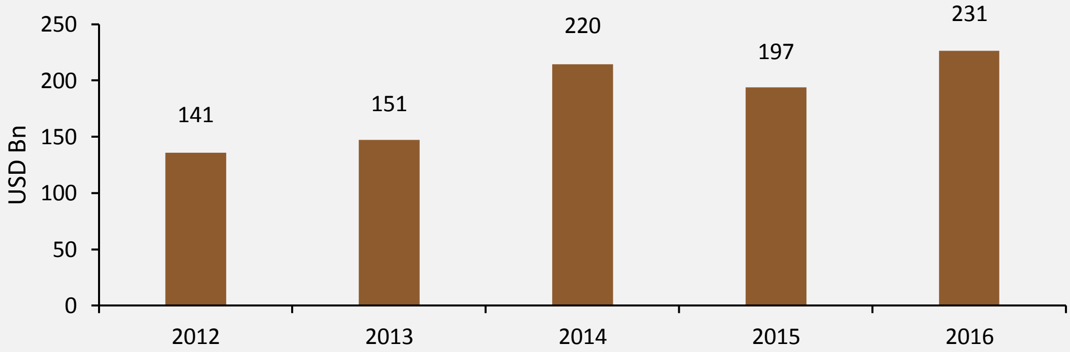
Attracting First-time Asian Issuers

MAS launched the Asian Bond Grant Scheme on 1 January 2017 to support the issuance of bonds by Asian companies in Singapore.

Asia's corporate bond markets are one of the fastest growing bond markets in the world. Over the last five years, Asian G-3 bond issuance volumes grew at a compound annual growth rate of 13% (Chart 11) to reach USD 231 billion in 2016.

The IMF's medium term forecast[8] for emerging and developing Asia's growth is a robust 6.3%, well above that for the US (1.7%) and Europe (1.5%). The expected strong economic growth outlook in Asia will drive greater financing needs for Asian issuers and international investors. Asian companies are expected to look increasingly towards offshore bond markets to raise international capital to bolster their financing needs and diversify their sources of funding.

Chart 11
Asian G-3 Issuance Volumes (2012-2016)



Source: Dealogic Debt Capital Markets Database

Recognising that issuers may need to obtain international ratings, documentation and roadshows to attract international investors, the Asian Bond Grant Scheme will support up to 50% of typical issuance-related expenses for first-time issuers to Singapore's bond market, subject to a cap of S$400,000 for rated issuances and S$200,000 for unrated issuances. Through the scheme, we hope to support Asian companies in their efforts to raise international capital for growth.

[8] IMF, Oct 2017.

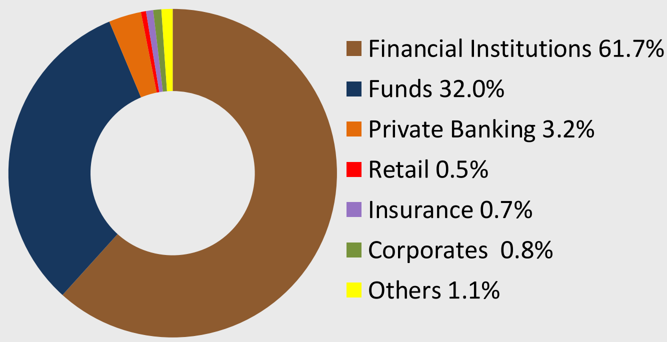
Investors

A wide range of investors, with different investment profiles, participated in Singapore's debt market (Chart 12):

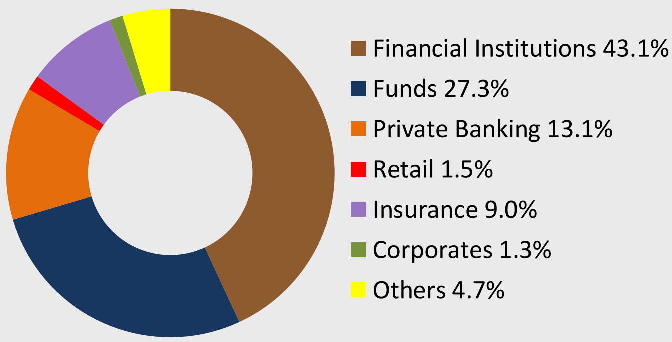
- Financial institutions continued to access a deep money market for liquidity management, taking up more than 60% of all short-term issues;
- Fund managers and insurance companies took up more than one-third of long-term issues, supporting the strong and diverse investor base in this segment;
- Fund managers and private banks accounted for almost half of the investment demand in SGD debt, with demand from fund managers overtaking private banking clients compared to 2015;
- Financial institutions and fund managers remain the dominant investors in non-SGD issues, maintaining their preference in the USD, GBP and AUD.

Chart 12

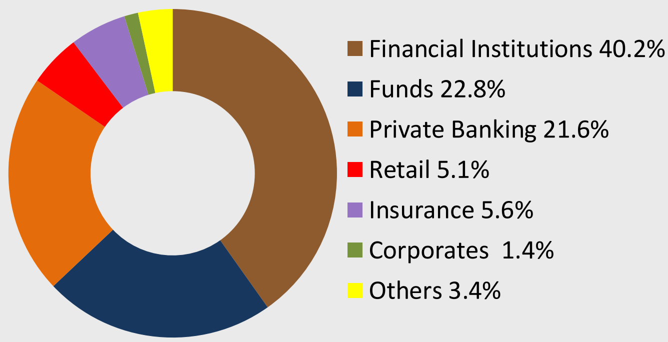
Investors in Short Term issues



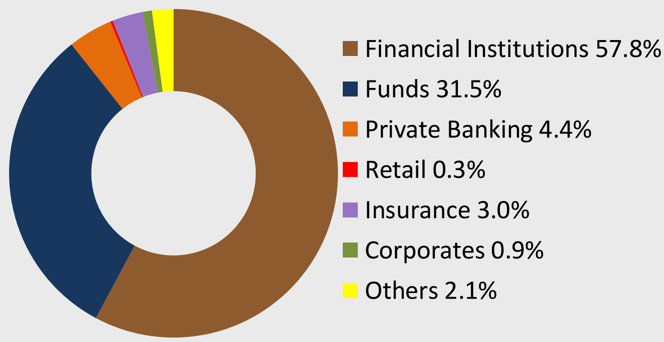
Investors in Long Term issues



Investors in SGD issues



Investors in Non-SGD issues

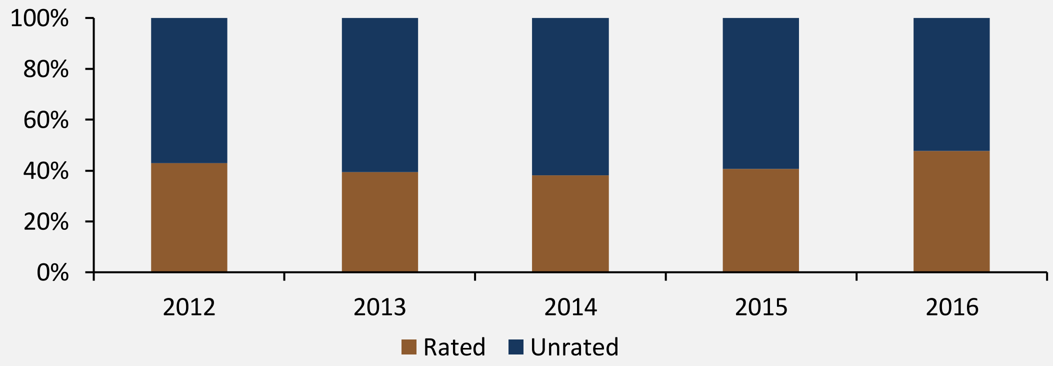


Encouraging Credit Ratings

The adoption of credit ratings has been slow in the SGD bond market. As at the end of 2016, only about half of the outstanding volume of SGD bonds were rated (Chart 13). This is low compared to most developed bond markets where 80-90% of bonds are rated[9], reflecting the important role that credit ratings play.

MAS would like to see a higher share of rated issuances in the SGD bond market. Greater availability of credit ratings in the domestic bond market will help to improve market transparency, by providing timely and independent assessments of the credit worthiness of issuers throughout the life of a bond. Issuers that get rated stand to gain from being able to tap a broader and more diverse investor base, including international institutional investors, as well as better secondary market liquidity, as rated bonds are more widely traded and accepted as collateral at central bank facilities and in a variety of securitised transactions. Banks are also generally more willing and able to make markets for rated paper.

Chart 13
Proportion of Rated Outstanding SGD Bonds (2012-2016)



Source: Bloomberg

To encourage SGD bond issuers to obtain credit ratings, MAS launched a Credit Rating Grant on 30 June 2017. Under the scheme, qualifying issuers can offset 100% of expenses attributable to obtaining credit ratings from one or more international credit rating agencies, subject to a funding cap of S$400,000 per issuer. MAS will continue to partner industry stakeholders to promote rated issuances. In the long run, we hope that this will help entrench a credit rating culture in Singapore.

[9] Estimates from Bloomberg.

Intermediaries and Infrastructure

Electronic trading aims to aggregate liquidity across market participants thereby reducing the reliance on dealers' inventory. With the continued decline in banks' capacity to warehouse risks on their books, electronic trading platforms in Asia have been improving their bond offerings to facilitate greater trading between market participants.

In particular, SGX's Bond Pro has actively expanded its clientele base and tradable product universe. The platform is now able to consolidate liquidity from investors in many Asian countries including Singapore, Hong Kong, Indonesia, Korea, Philippines, etc., and is looking towards expanding its distribution reach beyond Asia. It currently offers Asian G-3 bonds and plans to include Asian local currency bonds, which will be launched in phases starting with SGD corporate bonds in September 2017.

New electronic bond platforms are also embracing innovative FinTech solutions. An example would be TransFICC, an electronic trading technology provider that seeks to consolidate the different electronic liquidity pools by creating a common set of API to connect these venues.

Another important development for investors in Singapore and globally would be the opening up of China's bond market for trading through offshore-based electronic trading platforms ("Bond Connect").

Bond Connect provides global investors a third channel to access China's deep and liquid interbank bond market, which is the third largest bond market globally. Tradeweb, a Recognised Market Operator in Singapore, is the first designated electronic trading platform on Bond Connect. Through Tradeweb, investors can now gain improved accessibility to the deep liquidity pool of China's bond market from Singapore by leveraging their current custodian relationships to access onshore depository and settlement services.