SINGAPORE:

S'pore: Macroeconomic Review & the 2017 SGS bond issuance calendar

Oct 25, 2016

A more manageable SGS bond supply pipeline for 2017.
A lighter 2016 SGS bond auction calendar, comprising of 6 re-opening and only 1 new 5-year bond issue, should go down well with market players given firming FOMC rate hike speculation for December 2016 and beyond in 2017. For the longer-duration SGS bond issues, there is a 10-year re-opening scheduled for March 2017, a 30-year re-opening in June 2017, and a 15-year re-opening in September 2017. This compares favourably with the 5 re-openings (5-, 2- and 7-year tenors) and 4 new SGS bond issues (30-, 10- and 20-year tenors) this year.

There are also two optional mini-auctions pencilled in for May and November 2017, similar to the two optional mini-auctions pencilled in for this year but saw only one materialising for a 30-year re-opening for auction on 27 October for issue on 1 November 2016.

Gross issuance of SGS bonds, excluding the mini-auctions, could be between $11b-$18b for 2017. After factoring the $10b of SGS bond maturities in 2017 (comprising of $7.5b in April 2017 and $2.5b in October 2017) could mean a net SGS bond issuance of only $1b-$8b. The 2016 gross SGS bond issuance amounted to $18.8b (including $600m for the upcoming 30-year re-opening for the 27 October mini-auction).

MAS' Macroeconomic Review (MR) revealed that 2017 global growth will remain below trend in 2017, with sluggish business investments in major economies notwithstanding loose monetary policy. Adding into the mix other structural changes like China's increased in-sourcing of intermediate inputs and vertical integration of production processes which accentuated the intra-regional trade decline, this suggests that domestic demand will be the key growth engine for Asia ex-Japan which is tipped to expand at 4.5% in 2016 and 4.6% in 2017. As such, the Singapore economy is currently in a cyclical downturn and a very mild recovery is anticipated in the coming quarters – while trade-related weakness may be reaching a trough, lingering structural factors like the changes in global trade elasticities will continue to weigh on a highly trade-dependent economy like Singapore. The small negative output gap is likely to widen slightly in 2017.

Essentially MAS is not expecting a decisive near-term pickup, as external demand weakness is compounded by vulnerability to the underperforming semiconductor and transport services, hence the 2017 growth outlook is only likely to be slightly higher than 2016 which is projected to come in at the lower end of the 1-2% forecast range. During the protracted restructuring period, profit margin of firms, especially for trade-related manufacturing, wholesale and transport & storage industries, have taken a hit. That said, growth opportunities exist in high-performing IT services and related firms, including software development and publishing, as well as niche consumer products and services including R&D on biotech, medical and dental supplies, and travel and theme parks. Public spending on capacity expansion in

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healthcare and transportation services will also anchor domestic-related activities. **Our house forecast for 2016 and 2017 GDP growth are 1.3% and 1.5% respectively.**

The policy implications from such a cautious, even dovish, growth outlook are subtly nuanced:

a) **The soft patch in the labour market is likely to extend as business sentiments turn more cautious**. Smaller firms are likely to bear the brunt of adjustments - SMEs have downgraded their expectations for 4Q16-1Q17 and the pullback for hiring, capital investment and capacity utilisation is broad-based across both manufacturing and services industries. Therefore, wage pressures will subside going into 2017, and overall and resident unemployment rates are tipped to rise in the near-term. To address the growing skills mismatch, given the demand for IT, engineering and finance professionals as well as healthcare workers and early childhood educators, current initiatives like the SkillsFuture Credits and Professional Conversion Programmes will be increasingly relevant.

b) **Monetary policy settings, currently set at a neutral stance for the SGD NEER, remain appropriate for now and the band allows sufficient latitude for downside space for inflation and growth weakness** and is likely to remain relevant for the policy horizon. Given the heightened global uncertainties, the MR opined that a neutral stance provides some element of policy stability, and the cumulative effects of previous policy adjustments will continue to provide some support to GDP growth and ensure price stability over the medium term. Moreover, disinflationary influences are clearly ebbing – MAS core inflation has been on a gradual uptrend and could rise slightly to 1-2% in 2017 as energy-related components begin to contribute positively to inflation and the disinflationary effects of government subsidies subside, even as headline inflation remain moderate given well supply buffers in global commodity markets. In particular, long-term inflation expectations remain well-anchored.

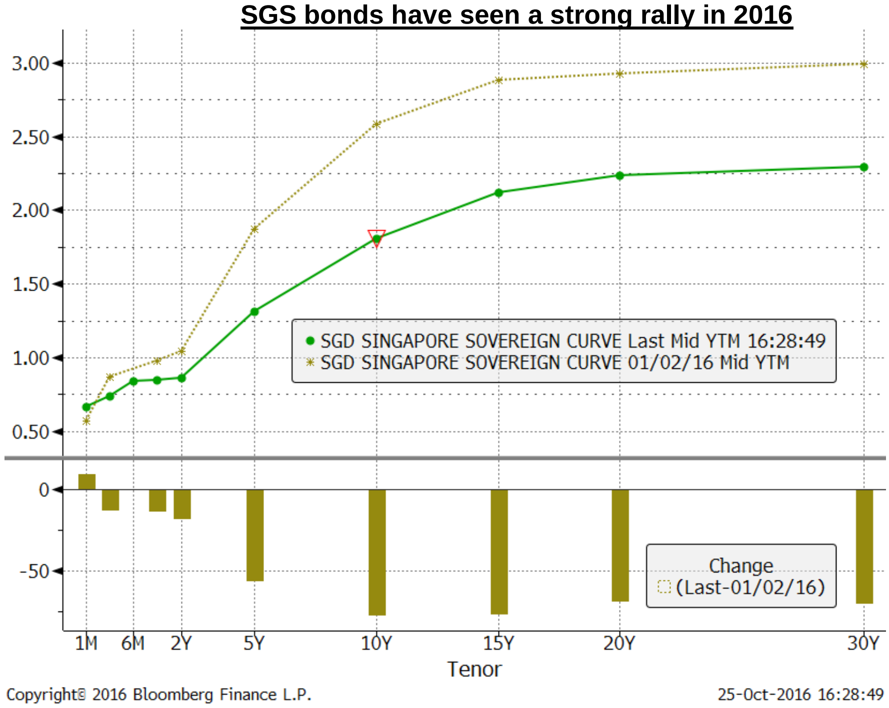
c) **Fiscal policy measures may come to the fore again**, mostly likely in the form of the upcoming FY17 Budget. If the need arises, defined as the Singapore economy sinking into an outright recession, the recent policy rhetoric has been that policymakers stand ready to act - depending on the nature and severity of the downturn, the government will consider introducing a range of contingency measures which could include broad-based as well as sector-specific measures. The macroeconomic policy mix of an accommodative monetary policy and a supportive fiscal policy is assessed to be appropriate given the emergence of some slack in the S'pore economy and a relatively muted inflation outlook.

d) **Liquidity conditions had generally tightened over the last six months**, largely attributable to the appreciation of the SGD NEER from April to August. However, domestic interest rates have fallen in the last six months, and the 3-month SIBOR premium over LIBOR has also dissipated. That said, the current window of relief on the short-term interest rate front remains ultimately a function of interest rate differentials and monetary policy expectations for domestic vis-à-vis major economies like the US going ahead, albeit we do not expect a sharp spike given the lack of inflationary pressures globally.

Announcement Date	Auction Date	Issuance Date	Tenor	New/Re-Opening	Maturity Date
Thu, 19 Jan 2017	Thu, 26 Jan 2017	Wed, 01 Feb 2017	2-yr	Reopen	01 Jun 2019
Fri, 17 Feb 2017	Fri, 24 Feb 2017	Wed, 01 Mar 2017	10-yr	Reopen	01 Mar 2027
Wed, 22 Mar 2017	Wed, 29 Mar 2017	Mon, 03 Apr 2017	5-yr	New Issue	01 Apr 2022
Mon, 22 May 2017	Mon, 29 May 2017	Thu, 01 Jun 2017	30-yr	Reopen	01 Mar 2046
Thu, 20 Jul 2017	Thu, 27 Jul 2017	Tue, 01 Aug 2017	7-yr		01 Jun 2025
Tue, 22 Aug 2017	Tue, 29 Aug 2017	Mon, 04 Sep 2017	15-yr	Reopen	01 Sep 2033
Wed, 20 Sep 2017	Wed, 27 Sep 2017	Mon, 02 Oct 2017	2-yr	Reopen	01 Oct 2019

** The reopened bond will not be a benchmark bond.
Source: MAS

SGS bonds have seen a strong rally in 2016



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