The Singapore Government Securities Market

The past year has been an exciting one for the Singapore Government securities market. After many months of discussion and preparation, the Monetary Authority of Singapore (MAS) finally launched the newly structured Singapore Government securities market in May, 1987. The new market structure consists of 5 primary dealers and 3 registered dealers who would make markets in Singapore Government securities and bid for new issues of securities competitively at auctions. All Government securities issued in the new market would be taxable and of the scripless form.

The objectives of changing the existing Singapore Government securities market are:

(a) to improve the liquidity and yields in the market so that investors have an effective additional avenue for investment;

(b) to develop a benchmark for pricing capital market instruments of other issuers;

(c) to develop skills in debt securities trading which can be applied towards offshore securities business e.g. trading in US Treasury securities, Eurobonds etc. A recent study conducted by the MAS indicated a shortage of personnel with experience in securities trading and distribution.

In conjunction with the new Government securities market, the MAS also revised the liquid asset requirements of banks and finance companies in Singapore. The first and second tier liquidity requirements were removed and since discount houses were closed, money-at-call with houses would no longer qualify as a liquid asset. These changes paved the way for banks to hold and trade the whole range of maturities in Government securities. With the start of a repurchase (repos) market, Government securities held by banks under overnight repos qualify as a liquid asset.

To meet the additional demand for Government securities, the MAS is auctioning new issues under a regular calendar. These issues range from a weekly auction of 3-month Treasury bills to a quarterly auction of 2-year and 5-year notes. Longer maturities may be forthcoming if there is market demand. Since the launch of the new market in May 1987, the MAS has already held auctions for a S$500 million 5-year note issue, a S$300 million 2-year note issue, fortnightly S$150 — 200 million 6-month bill issues and 3-month bill issues.

So far, the securities have been generally well received. The first issue of S$500 million 5-year notes met with good demand and bidding at the auction was very professional. Applications were received from a large spectrum of investors including individuals, finance companies, banks and merchant banks. In the secondary market, the issue traded very quickly to a premium. Similarly, the S$300 million 2-year notes which followed soon after also met with encouraging response resulting in a lower yield. Although initially traded at a discount, it rose above par after a few weeks.

Currently, the major participants in the Government securities market are the primary dealers, the registered dealers and a few of the larger commercial banks. Most of the daily trading activity has been between dealers and retail participation has been small. In order for the market to develop further, more retail participation is necessary. Financial institutions such as offshore banks, merchant banks, finance companies and insurance companies should be encouraged to trade more actively in this market, particularly now that the repurchase market has started. With low short-term interbank rates and a positive yield curve, trading in Singapore dollar securities can be profitable.

The securities market is still relatively young and unsophisticated. Most participants focus on the price of a bond rather than its yield. There is also little swapping between different issues to take advantage of market anomalies. In the Negotiable Certificates of Deposit (NCD) market, recent sellers of NCDs were happy to get rid of their papers just above their purchase price of par. They were not concerned that new NCDs were being issued with coupons that were ¼ to ⅜% lower.

On a more optimistic note, if we could use the Government securities market as a base from which to promote the further development of the NCD and corporate bond market, a medium-term source of funds could be made available to the private sector borrowers. Investors will also benefit from having a whole array of investment instruments, both in quality and maturity, to put their money in. Further down the road, we would look into the next stage which is the development of a medium-term interest rate swap market that would serve the interest of borrowers and investors.

By the New Products & International Development Sub-Committee